1992-1993 BUDGET

Highlights

Highlights of the Budget Speech
delivered before the National Assembly
by Mr. Gérard D. Levesque,
Minister of Finance,
on May 14, 1992

Gouvernement du Québec
Ministère des Finances

92-06428/

Message from the Minister

This is the eighth time I have had the honour of presenting the government's Budget to the people of Québec.

I wanted the measures announced in this Budget to reflect the continuation of our government's main policies with respect to public finances: making our tax system more competitive, reducing the deficit, and tailoring spending to our ability to pay. Above all, however, I wanted to see practical steps taken to respond to the needs created by the economic situation, which, as in the rest of Canada, has been marked in recent months by a period of stagnation.

During the preparation of the Budget, I met with representatives from various sectors who presented me with their vision of the present and the future. Three concerns were raised at this time: the tax burden on individuals, uncertainty with regard to jobs and, in the longer term, the economic future of Québec. The government intends to rise to these challenges.

The budgetary and fiscal policies announced in this Budget and our economic policies as a whole reflect our will to continue to deal with these questions firmly and with determination.

I am convinced that our Budget will restore the confidence of all citizens that Québec will actively participate in the economic recovery and get back on the road to prosperity.

Gérard D. Levesque
Minister of Finance

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Reducing the tax burden of individuals

One of the basic guiding principles for the preparation of the present Budget reflects the government's will to make every possible effort to avoid increasing the tax burden of individuals.

By making judicious budgetary choices, the government can now take steps to meet citizens' expectations.

- First, the **Budget includes no increases in the Quebec personal income tax**.

  In fact, this is the eighth consecutive Budget in which personal income tax has not been raised.

- Second, **the rate of the sales tax on services and housing, effective July 1, 1992, is reduced from 8 % to 4 %.**

  The measures announced in this Budget to ease the consumption tax reform make it possible to continue pursuing our main objective, which is to make products manufactured in Québec more competitive, while sustaining consumer confidence.

Through its positive impact on the performance of the economy, the implementation of the second phase of the Québec sales tax will lead to the creation of some 17 000 jobs over the next few years.

These measures will reduce government revenue by $126 million this year, even though the scope of the refund of taxes paid on purchases by businesses has been limited and the taxation rate of active business income has been raised by two percentage points.

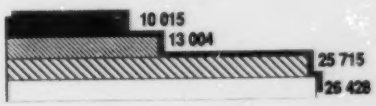
- Third, no **other tax currently paid by individuals will be raised this year.**

- Fourth, **all taxpayers will benefit from the indexing of personal tax credits by 2 % in 1993.** The Québec government will thus continue to implement its policy of indexing tax credits based on the cost of living and will be the only government in Canada to make this adjustment in favour of taxpayers next year.

  Income tax thresholds will therefore be raised again this year. For example, the income at which a couple with two children and only one work income will begin to pay taxes will be increased from $25 715 in 1992 to $26 428 in 1993.

INCOME TAX THRESHOLDS
(in dollars)

Couple with two children, 6-11 (one work income)



Single-parent family with one child under 6

Single person under 65 living alone

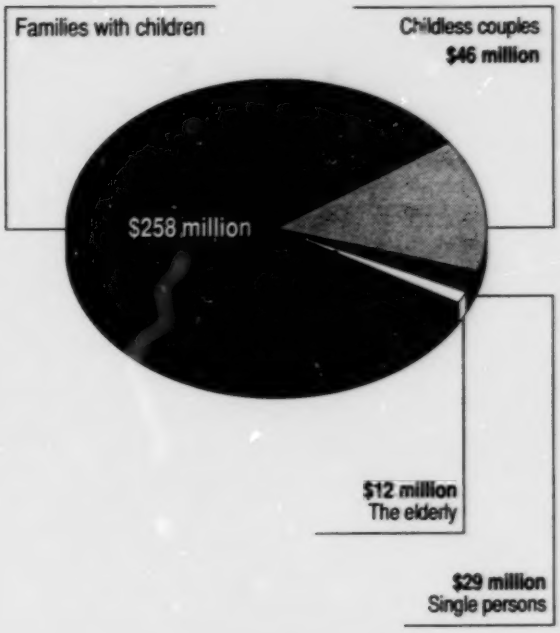
1985 1992
1987 1993

- Fifth, **several categories of taxpayers**, such as families, handicapped persons, and the less affluent members of society, **will benefit from personal income tax breaks**.

As a whole, the measures concerning taxes and transfers as they pertain to individuals will increase disposable income by $345 million in 1993.

The reductions in the amount of taxes to be paid will mainly benefit families with children.

MEASURES PERTAINING TO INDIVIDUALS IN 1993
$345 MILLION INCREASE IN DISPOSABLE INCOME
BY TYPE OF HOUSEHOLD



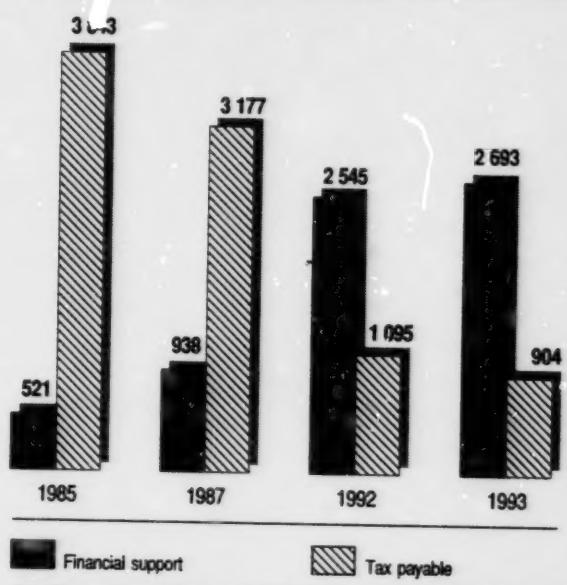
Assistance for families

The present Budget maintains the tradition of helping families to fill their vital role in the development of society. Once again, it increases financial assistance for parents, particularly for low-income families, and improves support for large families. It also takes into account the measures introduced recently by the federal government with regard to child benefits.

The measures announced in this Budget will increase the disposable income of families by $258 million.

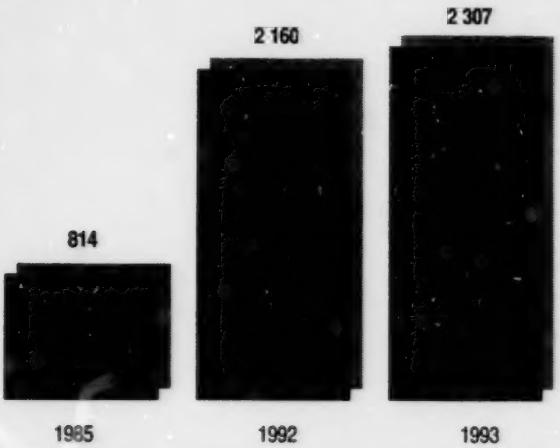
- Québec family allowances will be indexed by 2 % in 1993. The Québec government will be the only provincial government in Canada to continue paying family allowances.
- The full amount of the tax credits for children will be maintained despite the federal measures concerning child benefits. In this way, the Québec tax system will continue to recognize, for all families, the financial obligations entailed by children.
- Québec will not tax the new federal child benefit that is to replace federal family allowances, which were taxable.

TAX PAYABLE AND FINANCIAL SUPPORT[1]
COUPLE WITH TWO CHILDREN AND ONE WORK INCOME OF $30 000
(in dollars)



1 Financial support includes allowances and tax reductions pertaining to children.

GOVERNMENT FINANCIAL SUPPORT FOR CHILDREN
(in millions of dollars)



Government financial support for children will reach $2.3 billion, around $1.5 billion of which will be granted through measures implemented only in Québec.

- Quarterly payments for the third child and each additional child will be increased from $375 to $400. As a result, the total amount of the allowance for newborn children will be raised from $7 500 to $8 000 for the third child and each additional child.

- The deduction ceiling on child care expenses will be raised to $5 000 for children under 7 and to $3 000 for other children under 15.

Tax credit for persons who house their parents

A refundable tax credit will be introduced in 1992 to assist adults who house their father, mother, grandfather or grandmother aged 70 or over, or aged between 60 and 69 and suffering from a serious disability.

To be eligible for the credit, equivalent to an annual exemption of $2 200 for each parent, a taxpayer will have to have had a parent living with him for 12 consecutive months, six of which must fall within the taxation year. This measure represents a tax benefit of $22 million a year for these families.

In this way, the government will help families to fill their social role of providing support for the elderly.

Other measures pertaining to individuals

- To help elderly people to continue living at home, the age at which a person becomes eligible for the SHELTER AID program will be lowered from 60 to 55 over a five-year period.
- On January 1, 1993, the essential needs recognized under the EI and PWA income security programs will be indexed by 2 % and those recognized under the Financial Support program, using the index prescribed by law. As a result, the purchasing power of program beneficiaries will be maintained.
- The handicapped will benefit from the broadening of the definition of expenses eligible for the medical expense tax credit. In addition, the list of deductible expenses incurred by firms to help handicapped persons to become integrated into their working environment will be extended.
- Common-law spouses will be eligible for the tax credit for married persons.
- Moving expenses incurred to receive, in Québec, medical treatment not available in a particular region will be eligible, on certain conditions, for the tax credit of 20 % for medical expenses.

Promoting economic recovery

As in the United States and the rest of Canada, economic activity stagnated in Québec during the second half of 1991. At present, several signs point to renewed growth. In the United States, there has been an upturn in economic activity since the beginning of 1992. In Québec, as in the rest of Canada, interest rates and the rate of inflation are now the lowest in about two decades. In this context, production should rise by 1.6 % in Québec in 1992.

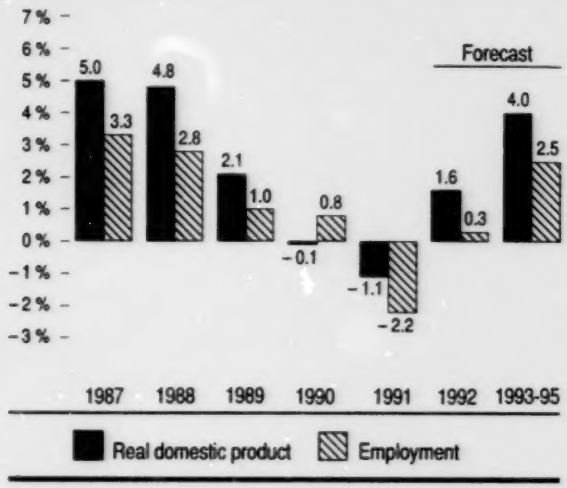
Although conditions for the renewed growth of the Québec economy are in place, the government intends to pursue its efforts to ensure that Québec fully participates in the imminent economic recovery. The creation of high-quality, well-paid jobs is still a priority.

Supporting strategic economic sectors

To promote economic recovery, measures will be implemented to support strategic sectors.

- The government is prepared to inject up to $100 million, at the rate of one dollar for every dollar contributed by the federal government, into a **cost-sharing program with the federal government for repairing and developing the road network**.

REAL DOMESTIC PRODUCT AND EMPLOYMENT
QUÉBEC
(annual change)



- An additional $35 million will be allocated this year tc improving the local road network in the regions.
- Under the new **program to support the recovery in SMBs**, the SDI will provide a guarantee for lending institutions of up to 50 % of the loss on loans granted to SMBs for investment projects or for projects to increase a firm's output.
- The government is setting up a major **renovation program for establishments housing the elderly**. A total of $240 million will be allocated to this program over the next three years, including $80 million as of this year.
- To improve the housing conditions of a large number of low-income households and to support the residential construction sector, the government will allocate an additional $31.5 million to the **Rental Building Renovation Program** this year. The Société d'habitation du Québec will therefore receive $55 million to finance the renovation of 8 000 housing units.

Support for the regions

Last fall, the government announced a strategy to ensure the economic development of all the regions of Québec. The measures presented in this Budget reinforce the efforts already made in this regard.

Regional development measures

- **A network of regional investment corporations will be set up in all the regions of Québec** by the Caisse de dépôt et placement du Québec, the National Bank of Canada, the Fonds de solidarité des travailleurs du Québec and the Mouvement Desjardins. Fifteen establishments, located throughout Québec, will place $100 million at the disposal of Québec SMBs that want to expand. **The government will finance part of the operating costs of the network over the next four years.**

- **Business assistance funds will be set up by the new regional councils.** The regions will have access to $15 million a year for starting businesses. Overall, the support granted as a result of this measure could lead to the creation of over 150 businesses a year.

- **The introduction of the SMB-Innovation Program,** allocated $24 million over the next three years, will enable SMBs to hire specialized consultants to accelerate their technological development and improve their management methods.

- **A budget of $15 million over three years will be allocated to the Program to Support Strategic Employment.** A new section will be added to the program to enable the employees of firms, particulary those in outlying regions, to upgrade their skills.

- **A total of $8 million over three years will be allocated to complete the network of specialized college centres.** This measure will also enable these centres to acquire new equipment. Since the government's contribution will cover one-third of the cost of acquisition, the regions will be able to acquire $17 million worth of equipment.

- A total of $8 million will be allocated to the secrétariat aux Affaires régionales to finance **measures to support entrepreneurship** initiated by the regional councils over the next three years.

Support for mining regions

Various measures are announced in the present Budget to support regions in Québec where the mining industry plays an important role.

First, the **program to support mining exploration**, administered by SOQUEM and the ministère de l'Énergie et des Ressources, is extended for another year with an additional $5 million. Last year, 29 projects were selected under this program for a total financial commitment of $4.4 million.

To promote the purchase of **flowthrough shares**, which are an important source of financing for the mining industry, a cumulative account for mining exploration expenses incurred in Québec will be set up. This measure will enable investors to reduce part of the taxable capital gains they realize when flowthrough shares are sold.

To better take into account the risks associated with surface mining exploration by junior companies, the deduction for surface mining exploration expenses will be raised from 166 ⅔ % to 175 %. The deduction for underground mining exploration expenses will be reduced from 133 ⅓ % to 125 %.

As a result of these two measures, the risks related to this type of investment will decline substantially for most investors.

Support for forestry regions

Aware of the importance of the forest to several regions of Québec and of the number of jobs it sustains, the government is allocating **additional appropriations of $7 million** to the ministère des Forêts. This measure will allow the creation of additional jobs.

Appropriations of $6 million will be allocated again this year to **the Gaspésie — Îles-de-la-Madeleine region** to help generate seasonal employment.

These measures will contribute to regional economic development by creating a climate that is conducive to job creation and the development of SMBs.

Paving the way for a prosperous future

Over the past few years, the government has implemented a number of policies to set the Québec economy on the road to sustained long-term growth. Steps to this end will be taken again this year.

Encouraging manpower training

- Given the scope of manpower training needs and the positive response of businesses to the refundable tax credit for worker training, the increased credit rates of 40 % and 20 % will be extended until January 1, 1995.

- The assistance program announced in the previous Budget for workers who would like to enhance their vocational qualifications will come into effect over the next few weeks, as a result of an agreement with the Mouvement Dejardins which will administer the program.

Eradicating the school drop-out problem

In view of the high student drop-out rate and anxious to see the workers of tomorrow well trained, the government will allocate $42 million to school boards as of this year to help them deal with the school drop-out problem.

Promoting worker-business partnership

The government is introducing a new fiscal measure to encourage workers and employers in the manufacturing sector to make a concerted effort to improve the productivity of their businesses.

Tax assistance to promote worker-business partnership

Workers in the manufacturing sector will not pay tax on the first $6 000 received under a gain sharing plan over a five-year period.

In addition, SMBs in the manufacturing sector will be eligible for a tax credit of 15 % applicable to amounts paid to employees under gain sharing plans.

To be eligible for these tax benefits, firms must implement a total quality approach and set up a gain sharing plan for which the ministère de l'Industrie, du Commerce et de la Technologie has issued a certificate.

Responsible and rigorous management of public finances

Given the stagnation of the economy, the government has decided to ease its policy of reducing the deficit in order to promote a rapid recovery.

However, under these circumstances, responsible management of public finances requires that we curb growth in expenditure and take advantage of existing sources of funds.

Limiting growth in expenditure

According to the estimates tabled last March, expenditure for 1992-1993 is expected to rise by 5.9 % compared with 1991-1992. This growth rate will be reduced to 5.1 %. For this purpose :

- Measures have been announced by the Minister of Health and Social Services to reduce spending in the health sector by $135 million. While coverage will be maintained for essential services, a minimum contribution will be required for certain services that are currently free of charge.

- A general reduction in operating expenditures in the public and parapublic sectors will make it possible to save $150 million.

Taking advantage of existing sources of funds

Three revenue measures have been adopted to improve the government's financial position.

- First, the government intends to pursue its efforts with regard to fees and to adjust them on the basis of production costs.

- Second, the government will continue to keep a close watch on the profitability of government corporations and will pursue its policy of reevaluating the role of each one of them. In addition, government corporations will have to observe the same rules for controlling spending as government departments, and some corporations will have to make major readjustments in order to become profitable again.

  In 1992-1993, the Société de-l'assurance automobile du Québec will pay $275 million to the government from its stabilization reserve. In addition, the government's special funds will remit $25 million, for 1992-1993, from their surpluses.

- Third, measures will be implemented to tighten the tax legislation. This will generate $36 million in revenue on an annual basis.

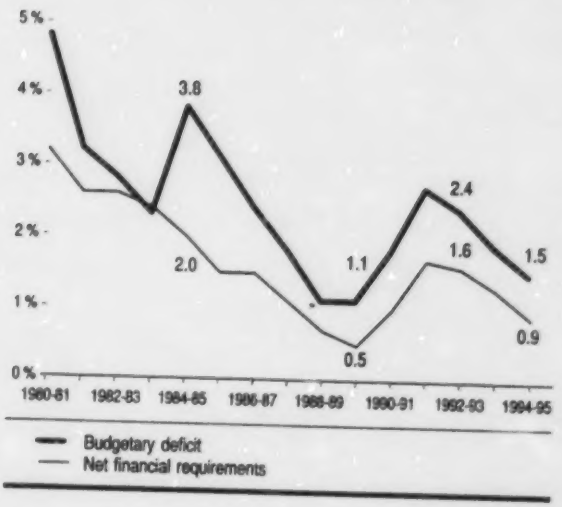
Controlling the deficit

Owing to the budgetary choices made and the revenue measures introduced, a deficit of $3 790 million can be anticipated for fiscal 1992-1993, a decrease of $405 million compared with the $4 195 million deficit recorded in 1991-1992. This reduction has been achieved even though taxpayers were granted tax breaks and measures were implemented to support the budding economic recovery.

Over the next few years, the government intends to pursue its objective of reducing the deficit substantially, to $3 260 million in 1993-1994 and $2 750 million in 1994-1995.

Expressed as a percentage of Québec's gross domestic product, the deficit will gradually fall from 2.7 % in 1991-1992 to 1.5 % in 1994-1995.

BUDGETARY DEFICIT AND NET FINANCIAL REQUIREMENTS
(as a percentage of GDP)



Conclusion

The tax relief granted despite the impact of the economic situation on public finances will restore consumer confidence. In addition, the measures to support the economic recovery announced in this Budget will stimulate job creation in all the regions of Québec.

Furthermore, several of the measures introduced, such as assistance for worker training, for the eradication of the school drop-out problem and for cooperation between economic partners, have increased Quebecers' chances of securing a prosperous future.

As a result of rigorous and responsible management of public finances, the budgetary and fiscal measures adopted in this Budget will not only prepare the future but also help to improve the present circumstances of all Quebecers.

1992-1993 BUDGET

Budget Speech and Additional Information

Delivered before the National Assembly
by Mr. Gérard D. Levesque,
Minister of Finance,
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Introduction

I have the honour of presenting my eighth Budget before the National Assembly.

Each Budget Speech has been prepared with the determination to satisfy Quebecers' needs as fully as possible and this tradition must be pursued.

In the course of preparing this Budget, I made a point of meeting numerous representatives from all milieus. I have also listened carefully to the opinions of voters in Bonaventure riding, and those received by fellow MNAs in all the regions of Québec.

The first message from our fellow Quebecers concerns taxation. Our interlocutors are unanimous in saying that they could not endure further tax increases. However, they are also asking us to rein in the deficit because it will invariably mean higher taxes, thus jeopardizing our future.

Our government shares these concerns. We must make difficult choices in order to curb growth in government spending without neglecting society's most pressing needs.

Quebecers are also concerned about employment. Following a brief upturn, the Canadian and American economies have again grown sluggish and Québec has not escaped this trend. Unemployment is still high and a number of businesses find themselves in a precarious position.

Our government fully understands the anxiety of many Quebecers in this respect. It will adopt concrete measures to help workers and businesses cope with this situation.

A third concern expressed by our fellow citizens is Québec's long-term economic future. We share with them the conviction that, despite current economic difficulties, we must not lose sight of the initiatives to be launched to ensure the province's future competitiveness and prosperity.

I am certain that all members of the National Assembly will concur that this Budget should resolutely tackle these three problems. I will deal with each one in turn.

I. An Action Plan Designed to Stabilize the Tax Burden

For nearly seven years, we have constantly striven to tailor the taxation system to the economy's and Quebecers' needs. Above all, we have sought to alleviate the tax burden to ensure that Québec remains fully competitive.

Two weeks after we took power in 1985, I announced the immediate implementation of lower personal income tax rates, the elimination of the sales tax on individual life insurance premiums, and a reduction in the fuel tax in outlying regions. Subsequently, a tax reduction for families and the PWA program were introduced, the first in a series of initiatives designed to significantly bolster support for families. In 1988, a very substantial reduction in personal income tax was announced, not to mention the systematic indexation of the essential needs recognized under the taxation system. These are but a few of the noteworthy measures adopted.

At the same time as we maintained the progressive nature of the Québec taxation system, it was possible for us to reduce the disparities between this system and those of our competitors. For example, a couple with two children and $35 000 in work income that paid $1 147 more tax in Québec than in Ontario in 1985 will pay $1 147 less in 1993. Today, Quebecers' clearly expressed expectations redouble our determination to strengthen the competitive nature of the Québec taxation system, a vital prerequisite to job creation in the province.

We could, of course, reduce the tax burden by increasing the deficit, which would simply accentuate the future burden through burgeoning interest payments. Adopting this tack would go against the principles we have defended since we took power and I do not think that Quebecers would want me to do so. To the contrary, they want us to reduce the deficit.

For this reason, the budget includes a three-part action plan designed to stabilize and even reduce the tax burden. To this end, we must:

— curb growth in spending;
— increase non-fiscal revenues; and
— tighten up some tax legislation.

(A) Curb growth in government spending

Curb growth in spending

The budget estimates tabled last March were based on 5.9 % growth in spending in 1992-1993. The estimates already included a reduction of $350 million for wages, productivity enhancement measures generating $106 million, and an array of cutbacks in the activities of government departments totalling $179 million. However, if we are to avoid raising taxes, we must further curtail growth in budgetary expenditure.

The health and social services sector accounts for nearly one-third of government spending, i.e. roughly $13 billion. Following the deliberations of a parliamentary committee on financing public health and social services, my colleague the Minister of Health and Social Services has just announced the government's choices in this realm.

Health costs trimmed by $135 million

The approach adopted consists of maintaining the coverage of essential health services, within the limits prescribed by the Canada Health Act, increasing the productivity of establishments and demanding a minimum contribution on certain supplementary services. Talks have been held in a spirit of cooperation with optometrists, dental surgeons, physicians and associations of health care establishments, to ensure the smooth implementation of this approach. These measures will result in a $135 million reduction in spending this year, and a $211 million reduction next year.

Among the productivity enhancement measures outlined in the estimates, operating expenditures other than wages were frozen in several instances at 1991-1992 levels and public service staffing was to be trimmed by 2 % a year up to the equivalent of 10 % over the next five years. This type of cutback has the advantage of reducing spending and heightening administrative efficiency rather than reducing services to Quebecers.

$150 million saving in operating costs

That is why I am announcing today a further reduction in public sector and network staffing levels and operating expenditures. However, teachers and health and social services staff will once again be exempted from such cutbacks. This measure will result in an additional saving of $150 million.

Furthermore, we intend to rigorously monitor spending throughout the year, with the result that we should be able to allow $475 million in appropriations to lapse, $220 million more than anticipated last March.

I am announcing the government's intention to have deposited with the Caisse de dépôt et placement du Québec a portion of its contributions to its employees' retirement funds. The funds deposited will be borrowed on the financial markets at a rate of interest below that on the balance of the retirement funds account. In addition to the saving in interest, the change will clearly demonstrate the government's commitment to the retirement benefits of public servants.

When this new method of financing is implemented, the government intends to pass on to the retirement funds their administrative costs. My colleague the Minister for Administration and the Public Service and Chairman of the Conseil du trésor will table the necessary amendments, after engaging in consultations on the most appropriate manner to proceed in this regard.

These reductions in spending will be even more necessary as spending will increase by $91 million in 1992-1993 as a result of the fiscal and budgetary measures I am announcing today, mainly to spur economic recovery. Moreover, the wage offers we have made to public sector employees exceed the budgetary estimates by $227 million.

Total spending reduced by $316 million in 1992-1993

The foregoing measures and a $128 million downward revision in expenditure will enable us to trim growth in spending from 5.9 % to 5.1 % this year, resulting in a saving of $316 million.

Our policy of stringent management of spending is thus being maintained. When the cutbacks I am announcing are factored in, spending will be reduced by a total of $823 million in 1992-1993. It should also be noted that the sluggish economy accounts for a 1.8 % rise in spending this year. When this factor is excluded, structural growth in spending outstrips the inflation rate by only 1.3 %, entirely in keeping with changes in taxpayers' capacity to pay.

(B) Increase non-fiscal revenues

Broader use of fees

Fees increased by $89 million

There are undeniable advantages to charging fees for public services. In addition to curbing growth in public spending, they are an equitable, efficient means of financing in economic terms. They are fair in that beneficiaries of government services contribute in accordance with the use they make of such services. They are efficient because they help streamline the consumption of public services, by establishing in the consumer's mind a link between the cost of the services and his contribution to obtain them. The government intends to pursue its efforts in this field, with the result that an additional $89 million will be generated this year.

Efficient management of government corporations

Lightening the tax burden also means monitoring the profitability of government corporations.

It is necessary to constantly review government corporations to ascertain whether a government presence is still necessary in the various domains where such corporations operate. Since 1986, such reviews have led to divestment by government corporations of a number of interests in businesses.

We intend to pursue this year our policy of periodically reviewing the role played by each government corporation. This policy entails withdrawing when State intervention is no longer necessary and the private sector is capable of taking over in advantageous conditions.

Subjecting government corporations to the same restrictions as the public sector

We must also boost profits of government corporations and, in some instances, reduce their losses. The first solution is to prune operating costs. I am therefore announcing the government's intention of ensuring that wage restrictions and other spending control measures imposed on government departments are extended to government corporations. We will also ask such corporations to monitor more stringently than ever the financial position of the enterprises in which they have invested.

A particularly vigorous effort is called for in some cases. I am thinking in particular of SIDBEC, which, affected by especially trying economic conditions and structural problems, sustained heavy losses in 1991. A recovery plan has been drawn up that should enable SIDBEC to become profitable again next year. I am confident indeed that the workers, the corporation and the government will pool their efforts to achieve this objective, vital for the enterprise's survival.

The excellent performance in recent years of the Société de l'assurance automobile du Québec has been widely acknowledged. The measures it has instigated, combined with government initiatives, have improved road safety in Québec and helped contain the cost of the public automobile insurance plan. In addition to the actuarial reserve that it needs to cover its obligations, the SAAQ has generated a substantial stabilization reserve, totalling nearly $1.4 billion in late 1991. The agency will use most of the latter amount to offset growth in its expenses and avoid raising insurance premiums in the coming years.

SAAQ to pay the government $275 million

In light of the current budgetary climate and to avoid increasing taxes, a solution that no one wishes to see adopted, the SAAQ will pay the government $275 million in 1992-1993 from its stabilization reserve.

Automobile insurance premiums held down

In recent years, SAAQ premiums have dropped significantly. The insurance premium payable at the time of registration has fallen from $114 in 1985 to $85 today, not to mention the reduction in the portion of the cost relating to driver's licences. Despite the payment made to the government, the SAAQ's financial capacity will remain sufficiently robust to keep premiums down for several years to come.

To conclude, this year, the government's special funds will pay $25 million from their surpluses into the consolidated revenue fund.

(C) Tighten up some tax legislation

Reducing the general tax burden also implies ensuring that the spirit of tax legislation is respected and that everyone contributes his fair share to the public treasury. I therefore intend to adopt several measures to tighten up tax legislation pertaining to corporations.

The Appendix on Fiscal and Budgetary Measures, which is an integral part of this Budget Speech, contains details of these measures, which, overall, should increase government revenues by $36 million over a full year.

We also intend to amend a tax collected on behalf of the municipalities. It consists of amounts in lieu of the property taxes of telecommunications, cable TV and gas companies. The manner in which the tax base is defined has been contested on a number of occasions in recent years. In order to eliminate ambiguity in the legislation, the government plans to modify the factors that enter into the calculation of the tax base and the tax rates. The changes will by and large result in the same tax revenues for the municipalities and continue to provide a stable source of revenue.

(D) Result: A lighter tax burden

Reduction of the QST; no increase in personal income tax and other taxes pertaining to individuals

The action plan I have just outlined will be of particular benefit in the coming year. Were we to increase the tax burden, it would mean making disproportionate demands on taxpayers and taking the risk of reversing the fragile economic recovery.

No increase in personal income tax

Stringent control over growth in spending and the measures announced earlier will enable me to satisfy Quebecers' expectations. I am especially proud to announce today that this Budget, like all of the preceding ones, does not contain any increase in personal income tax.

I intend to significantly relax the proposed reform of the sales tax, which is to come into force in July. I will return to this question in a moment. Moreover, as a result of the austerity measures adopted in this Budget, no consumption tax will be raised this year.

We can be proud of these results, which stem from extremely rigorous, responsible management of spending. I would like to take advantage of this opportunity to congratulate all of my Cabinet colleagues. In particular, I would like to emphasize the tireless efforts of the Chairman and members of the Conseil du trésor.

We can go even further and effect a number of tax reductions.

First, our government will maintain its ongoing policy of indexing personal tax credits. Were there no such indexation tied to the cost of living, the government would tax a portion of individual incomes used to cover essential needs.

2 % indexation of personal tax credits and family allowances

For this reason, I have the pleasure of announcing that, as of January 1, 1993, personal tax credits and family allowances will be increased by 2 %, the anticipated rise in the cost of living. It should be noted that next year Québec will be the only government in Canada to index personal income tax.

Similarly, the thresholds at which taxpayers begin to pay income tax will be raised once again. For the 1993 taxation year, a couple with two children will not pay tax on income under $26 428. In 1985, such a family started paying tax on income of $10 015.

Protecting the purchasing power of the underprivileged

EI and PWA indexed by 2 %

Our government has always been highly concerned about the most underprivileged members of our society. I deem it essential to continue to protect their purchasing power. For this reason, I am announcing that the essential needs recognized under the income security program will be indexed by 2 % in 1993. Beneficiaries of the EI and PWA programs will thus benefit from protection of their purchasing power equivalent to the anticipated rise in the cost of living. The Financial Support program will be indexed automatically as stipulated in the statute.

As a result of the indexation of income security programs, personal tax credits, family allowances and tax thresholds, it will be possible to put over $200 million in the hands of taxpayers, families and the least privileged members of our society.

Improvements for the handicapped

In its latest Budget, the federal government made a number of improvements respecting deductions and tax credits for the handicapped, in particular the broadening of medical expenses and costs incurred by employers to enable the handicapped to better integrate into the workplace. To assist the handicapped, the Québec taxation system will be brought into line with the federal measures.

Moving expenses eligible for the medical expense tax credit

At present, when an individual or his family is compelled to move to obtain medical care, moving expenses are not eligible for the medical expense tax credit. In order to remedy this situation, I am announcing that their moving expenses will be eligible for the 20 % tax credit.

Increased assistance for families

Another fundamental policy direction pursued by our government since 1985 is to better gear the taxation system to the needs of Québec families.

Families have always played a crucial role in terms of the support they offer their members, especially children. Such support is multifaceted and makes the family a focal point of individual development and socialization, for the greater benefit of society as a whole.

For all manner of reasons tied to changes in society, a number of families are experiencing major difficulty in assuming these responsibilities.

As a result, I am convinced that families need even more support from the government.

That is why I have sought in each of my Budgets to offer increased support for families. Today, I intend to pursue this course of action.

— ***Harmonization with measures announced in the latest federal Budget***

The first question that arises is the significant modifications that Ottawa has just made in child benefits. This reform centres on principles that are different from those underlying the treatment granted families under the Québec taxation system. Québec, which does not participate in tax collection agreements as the other provinces do, is not obliged to fall into line with these changes. We have decided instead to maintain the broad principles pertaining to families inherent in the Québec taxation system. Specifically, these principles are :

— recognition of the fact that all families assume financial responsibilities with regard to their children;

— the need to pay special attention to low-income families; and

— the importance of providing special support for large families.

By eliminating tax credits for the children of middle and high-income families, the federal reform has eliminated an advantage that was rightly granted to all families. Such credits take into account the fact that families must cover the essential needs of dependent children. I am convinced that the taxation system must be tailored to this situation by avoiding taxing income that covers such needs.

Tax credits for children fully maintained

That is why I am announcing that, contrary to the other provinces and Ottawa, tax credits for children are being fully maintained. In this way we will continue to acknowledge the cost that all families bear in raising children. Québec's fiscal autonomy enables it to preserve a benefit worth $467 million to families, which has no equivalent elsewhere in Canada.

Federal child allowances non-taxable

However, we will adopt the portion of the reform that is advantageous to families. I am therefore announcing that Québec will not tax the new benefits that will replace federal family allowances. Because the allowances used to be taxable, such a measure will put an additional $70 million in the hands of Québec families.

It strikes me that Québec should bring its taxation system into line with two other changes announced in the latest federal Budget.

Higher child care expense deductions

Ottawa recently announced that the maximum allowable deduction for child care expenses was being raised to $3 000 or to $5 000, depending on the age of the children. I am pleased to announce that Québec will also raise its deductions so that they match those adopted by the federal government. In this way, we will take better account of the cost of child care and provide additional support for parents who are gainfully employed.

Harmonization concerning common-law spouses

Québec recently enhanced its taxation system so that married couples and common-law spouses are treated more fairly. The federal government is about to adopt similar provisions, although it is going one step further, in particular by granting common-law spouses the married person credit. We will adopt the same policy, so that the Québec and federal systems are completely harmonized in this respect.

— ***Other improvements in the taxation system as it pertains to families***

In recent years, our government has implemented an array of measures to assist families. Recently, my colleague the Minister for the Status of Women and Minister responsible for Family Policy submitted an action plan in this respect for the coming years.

Despite the difficult budgetary context, I feel that it is important to pursue our initiatives in this realm.

Among the measures our government has implemented, the most striking has undoubtedly been the allowance for newborn children, the amount of which depends on the rank of the child and totals $7 500 starting with the third child.

Allowances for the third child and subsequent children are paid in the form of $375 quarterly payments. In recent years, we have gradually increased the number of payments, which are now granted until the child reaches 5, the age at which he begins to attend school.

Allowance for the third child raised to $8 000

It would certainly be appropriate to increase the amounts paid to families with three or more children. It is therefore a pleasure to announce that quarterly payments will be increased from $375 to $400. This measure will come into effect immediately and will bring the total allowance for the third child and subsequent children from $7 500 to $8 000.

I also have the pleasure of announcing a relaxation of the rules governing entitlement to the $500 and $1 000 allowances for the first and second children, in the case of adoption. At present, parents adopting a child before the latter reaches the age of 2 are entitled to these allowances. In future, all parents adopting a first or second child before such children reach the age of 5 will benefit from the measure.

Traditionally, families also support the elderly, although it is becoming harder for them to do so.

The Québec population is aging and this trend will accelerate in the future. Growing pressure is being exerted on the reception and accommodation centres at a time when many elderly people prefer to live with their children.

Assistance for people who care for their elderly parents

I feel that it is germane to assist families that are prepared to assume these responsibilities. For this reason, I am announcing a new refundable tax credit that will be granted to people who house their mothers or fathers (or both), when the latter are 70 or over. The credit will be equivalent to an annual $2 200 exemption per parent and will also apply to parents 60 or over who are suffering from serious disabilities. The families concerned will benefit from $22 million a year through this measure.

Broadening of the SHELTER AID program

The government is also seeking to encourage to the utmost the autonomy of the elderly by helping them to keep their own dwellings when the cost exceeds 30 % of their income. The SHELTER AID program is currently open to individuals 60 years of age or over. Over the next five years, we will gradually lower the age of eligibility to 55, at a cost of nearly $8 million a year over this period.

Improved housing allowance

A number of families benefiting from income security must pay more for housing than is provided for in their benefits. For this reason, the government has adopted a housing allowance in order to assist them. I am announcing today that we will improve the housing assistance program so that the families concerned can better house themselves. Starting in January 1993, the maximum rents covered by the housing allowance will be raised by between $48 and $54, depending on the size of the family.

All of the foregoing measures pertaining to the taxation of individuals and families will increase their disposable income by $345 million. I am especially pleased that, of this amount, $258 million will benefit families with children. When the measures I am announcing today are factored in, the support the Québec government is providing for families will reach $2.3 billion, including $1.5 billion attributable to measures that are not found anywhere else in Canada.

II. Employment

Our government has always displayed paramount concern for economic growth and job creation. In these difficult times, our concern is unwavering.

(A) The economic situation in 1991

Most of the industrialized nations found 1991 to be a year of constraint. Some, like the United Kingdom and Germany, were already in or went into a recession; others, like Japan, underwent marked economic slowdowns, while economic recovery in the United States faltered.

The unfavourable international economic environment, combined with a strong Canadian dollar and consumer debt reduced output in Canada by 1.5 % last year. In addition, following a faint upturn in the second quarter, the Canadian economy has stagnated since the summer.

Québec has not escaped the lacklustre climate affecting Canada and the major industrialized nations. Output fell by roughly 1 % and 68 000 jobs have been lost. Despite everything, the latest recession has been less difficult than the 1982 economic slump. Moreover, contrary to what occurred in the early 1980s, Québec has been less heavily affected than Ontario by the current recession.

To my mind, without the initiatives our government has taken in the past two years, in particular the economic action plan unveiled by the Prime Minister on January 17, 1991, Quebecers would have suffered more acutely from the effects of the recession we have just gone through.

Government initiatives have saved thousands of jobs

Allow me to review the main results of these initiatives :

— By March 31, 1992, nearly $600 million had been allocated under two accelerated public investment programs. This measure has made it possible to create some 10 000 jobs.

— The Deal Estate program has helped nearly 21 000 households become the owners of new homes and has helped sustain over 20 000 jobs in the construction industry.

— The SDI program to revitalize SMBs, designed to assist companies experiencing problems because of the recession, has helped nearly 350 firms and made it possible to save more than 17 000 jobs.

— At a time when private sector non-residential investment was dwindling because of the economic situation, Hydro-Québec's capital expenditures rose by nearly 30 % in 1991, to a total of over $4 billion. Such investment sustained over 31 000 jobs.

These are eloquent examples of the support the Québec government has offered Quebecers. All of the foregoing initiatives have made it possible to preserve or create numerous jobs at a time when Québec needed them badly.

(B) Outlook for 1992

The aura of gloom pervading the Québec economy, and the Canadian economy, has not yet totally dissipated. However, since January of this year, signs of an upturn have proliferated in the United States, our main export market, which, along with the recent drop in the Canadian dollar, cannot fail to spur output in Québec and Canada as a whole.

Interest rates in Canada have fallen markedly to levels unmatched for some 20 years. Furthermore, the inflation rate has also plummeted to levels unparalleled since the mid-1960s. As a result, the Bank of Canada should be able to further lower interest rates.

These are encouraging signs and, according to the forecasts of specialized agencies, growth should pick up shortly. The agencies concerned predict that output will increase this year by 1.5 % in Québec and nearly 2 % in Canada as a whole, then accelerate next year to roughly 4 % in both cases. The International Monetary Fund recently noted that, over the next two years, Canada will enjoy the highest economic growth of all the major industrialized nations.

This is indeed gratifying news and it allows us to more confidently contemplate the future.

We must nonetheless do everything in our power to ensure that Québec participates fully in economic recovery. First, I intend to do so through fiscal policies geared to the situation. Second, I will announce concrete measures to spark recovery, initially in Québec as a whole, but also in the regions.

(C) A taxation policy geared to economic recovery

As I have already explained, one fundamental aim of this Budget is to avoid tax increases. I am convinced that this policy direction will boost consumer and business confidence.

Moreover, I intend to adopt other provisions to put the Québec economy on the road to recovery as quickly as possible.

One of the most significant reforms our government has adopted is the revamping of consumption taxes. The basic objective of this reform is to make Québec more competitive by eliminating the taxation of purchases that businesses make for the purpose of production. Another objective is to simplify things by operating the federal and Québec regimes under a single administration.

However, last October, when economic recovery momentarily faltered, the government decided to delay by six months the coming into force of the second phase of the QST. The prevailing economic climate continues to warrant caution and has convinced us of the need to modify the original project, without sacrificing the essence of our objective, which is to make the Québec economy more competitive and create jobs here rather than elsewhere.

QST on services and immovables reduced from 8 % to 4 %

As of July 1, 1992, the QST is slated to apply to services and immovables, while businesses will be entitled to tax refunds on their purchases. Postponing the reform once again would undermine the confidence of businesses and investors, while the current economic climate incites us to maintain consumer confidence as well. For this reason, I am announcing that the second phase of the reform will be implemented on July 1, 1992 as planned, but that the tax rate on services and immovables will be reduced from 8 % to 4 %.

The lower rate will be partially offset by a higher contribution from businesses, which will nonetheless enjoy a reduction in production costs on the order of $850 million. The tax rates on active business income will be raised by two percentage points. Contrary to earlier indications, businesses will continue to bear the burden of the taxes they now pay on fuel, electricity, natural gas, heating oil, telephone and telecommunications services, vehicles, and meal and entertainment expenses. Despite this change, businesses may obtain refunds on up to 80 % of the QST paid on their purchases.

The new system will be especially beneficial to farmers, since an even greater proportion of their purchases will quality for a refund.

I also wish to stress that low-income households will be fully compensated for the effects of the second phase of the reform on disposable income, as a result of the increased refundable sales tax credit that will come into effect on July 1, 1992.

The foregoing measures will reduce by $126 million the revenue the government receives compared with the integral application of the reform.

Taxes in the cultural sector lowered from 17 % to 11.28 %

As a result of the drop in the QST rate on services and the elimination of duties on amusements, the cultural sector will be taxed at 11.28 % instead of 17 %. Consequently, and in light of the refund of the tax on inputs, the cultural sector will be subject to a lower level of taxation than it was prior to the coming into force of the QST and the GST.

In this way, the government wishes to display its commitment to better support cultural policy. I would like to point out that the action plan that my colleague the Minister of Cultural Affairs will submit in the near future will contain other fiscal measures to promote cultural development. I am announcing that the ministère des Affaires culturelles will receive $5 million pursuant to the plan starting in 1992-1993 to foster cultural initiatives in collaboration with the municipalities, notably in the regions.

$58.5 million in compensation to the municipalities

I am also announcing that the municipalities will receive compensation for the elimination of duties on amusements starting on July 1, 1992. Such compensation will total $6.5 million in 1992 and $13 million in each of the four succeeding years, for an overall total of $58.5 million. My colleague the Minister of Municipal Affairs will announce the procedures for distributing this compensation among the municipalities concerned. This compensation will be added to the $35 million the municipalities will save each year through the relaxation of rules governing the QST announced today.

It should be noted that the Québec tourist industry will benefit in particular from the changes that I have just announced. At 4 %, the tax applicable to hotel rooms will be among the lowest in the neighbouring regions, not to mention that non-residents may claim a refund of the tax. Moreover, special rules are being adopted to foster the organization of conventions in Québec.

I am especially pleased that this reform of the QST can be completed in the manner announced today. By making the difficult choice of moving immediately ahead with this reform, our government is reconfirming its commitment to create jobs.

Some 17 000 jobs to be created

The reductions adopted maintain by and large the benefits of the reform, while making it possible to bolster consumer confidence. We anticipate that some 17 000 jobs will be created when the full effect of the reform is felt. In light of current unemployment figures, I do not think that Quebecers can afford to see these jobs go elsewhere.

This Budget also includes a number of adjustments to fiscal measures intended to restructure the Québec economy. For example, the Appendix on Fiscal and Budgetary Measures contains provisions to facilitate the raising of venture capital, and boost research and development and worker training.

The Minister for Finance and Minister responsible for Financial Institutions is interested in the problem of the capitalization of Québec financial institutions, especially those that insure individuals. A task force made up of industry representatives and the ministère des Finances will make recommendations in this respect by this fall.

(D) Support for economic recovery throughout Québec

Experts predict that the Québec and North American economies will recover this year, although growth will not be spread equally in all sectors. That is why I am announcing today five measures to spur economic recovery in Québec.

Improvements to the road network

During the First Ministers' meetings on the economy held last December, February and March, discussions focused on the adoption of a shared-cost program concerning the upgrading and development of the national road network. At present, the federal government has not revealed its intentions in this respect, although we are confident that it will do so in the near future. For this reason, I am announcing that our government is prepared to match every dollar of federal funding, up to a maximum of $100 million. A provision has been incorporated this year into the government's financial framework.

An additional $35 million for the local road network

On December 14, 1990, the government announced that it intended to transfer responsibility for the local road network to the municipalities as of April 1, 1993. I am announcing today that an additional $35 million will be provided in 1992-1993 to improve the network before responsibility for it is turned over to the municipalities. The government has already decided to earmark more than $100 million a year starting in 1993-1994 to municipal assistance programs in order to help them assume this new responsibility.

$240 million over three years for reception and accommodation centres

There are a number of pressing needs in reception and accommodation centres, many of which are critically outmoded and are poorly adapted to clienteles requiring additional care. I have the pleasure of announcing today a renovation program aimed at centres that house the elderly. Over the next three years, $240 million will be allocated to the program, including $80 million this year.

$31.5 million more for home renovation

In 1990, we introduced a rental dwelling renovation program aimed mainly at dwellings occupied by low-income urban families. The program has sufficient funds at present to cover the renovation of 3 400 dwellings in 1992-1993. To help numerous low-income families upgrade their housing and give the construction sector a boost, I am announcing that the program will receive an additional $31.5 million to cover the renovation of up to 8 000 dwellings undertaken this year.

I am announcing the implementation of a program to revitalize SMBs, to replace the program administered by the Société de développement industriel, which ended last March 31.

$60 million in loan guarantees

This new program will rely on financial institutions and guarantee loans intended to finance investment projects. The SDI will reimburse lending institutions for up to 50 % of the losses sustained on such loans. Under the program, $60 million in loan guarantees will be available, thus making it possible to generate $150 million in investment in SMBs. My colleague the Minister of Industry, Trade and Technology will announce in the near future procedures governing this new program.

(E) Encouragement for economic development in the regions

Supporting economic growth also means ensuring that all regions of Québec participate in it.

Last December, the government made public the new policy directions it plans to emphasize in order to step up the development of all of Québec's regions.

First, the Minister responsible for the Comité ministériel permanent de développement du Grand Montréal has proposed a strategic plan aimed at making Montréal one of the most dynamic centres in North America. The focal point of this plan is the establishment of Innovatech, with a $300 million budget over five years.

Shortly thereafter, the Minister for Regional Affairs unveiled a new strategy geared toward involving regional bodies more extensively in economic development. This choice reflects the government's conviction that cooperation and the business spirit prevailing in all of the regions are the best means of revamping the industrial structure and creating jobs. This new approach illustrates the government's confidence in the ability of regional intervening parties to make the right choices and meet challenges, provided they are given the means to do so.

To support and strengthen this strategy, I have the honour of announcing a series of new measures centred specifically on four objectives :

— make available to the businesses in Québec's regions the capital they need ;

— support efforts to modernize SMBs by making qualified workers available to them ;

— support regional entrepreneurship ; and

— support a number of sectors that are vital to regional development.

Access to capital

Establishment of a network of regional investment corporations

Last year, I expressed the hope that the Gaspésie and Îles-de-la-Madeleine regional capitalization fund be broadened to encompass all regions of Québec. This has been done. With the cooperation of the Caisse de dépôt et placement du Québec, the National Bank of Canada, the Fonds de solidarité des travailleurs du Québec and the Mouvement Desjardins, a veritable network of regional investment corporations will be set up in all regions of Québec. To encourage the network's establishment, the government will defray a portion of operating expenses over the next four years which will require $1.8 million in funds each year. The network may make up to $100 million available to Québec SMBs.

Business assistance funds to replace the Regional Program to Create Permanent Jobs (PRECEP)

My colleague the Minister for Regional Affairs had announced that a business assistance fund would be launched in each region of Québec, to replace the Regional Program to Create Permanent Jobs (PRECEP). I have the pleasure of announcing that the procedures governing the implementation and operation of the funds have been established and will be announced shortly by the Minister for Regional Development. Under the measure, some $15 million a year will be available to help launch businesses in the regions.

Modernization of SMBs

$39 million over three years for the SMB-Innovation program and the Program to Support Strategic Employment

I also intend to support the modernization of the SMBs in the regions. To this end, I am announcing the introduction of the SMB-Innovation program, with a $24 million budget over three years, to facilitate access among SMBs to outside consultants. I am also announcing that the Program to Support Strategic Employment will be renewed and granted a budget of $15 million over three years, in order to provide SMBs with qualified technical workers.

We must ensure that the neediest, most remote regions benefit fully from these programs. I am therefore announcing that the assistance provided under the two programs will vary according to the remoteness and level of development of the regions benefiting from it.

$17 million in specialized equipment for colleges

Specialized college centres are efficient agents through which to transfer technologies to SMBs throughout the province. To enable such centres to better fulfil this role, I am announcing an additional $8 million, spread over three years, in order to round out the network and, above all, make it possible to acquire new specialized equipment. Over the next three years, some $17 million will be invested in such equipment in the regions.

My colleagues the Minister of Higher Education and Science and the Minister of Industry, Trade and Technology will announce in the near future procedures governing the application of these measures.

Support for entrepreneurship

A regional development policy would obviously be incomplete without active support for the development of entrepreneurship. I am therefore announcing that the government will earmark $8 million over the next three years to supporting and promoting regional entrepreneurship. Regional councils will elaborate the annual programming of these initiatives, for approval by the Minister for Regional Affairs.

Assistance for specific strategic sectors

The mining sector is a crucial natural resource in the Abitibi and other regions.

Increased assistance for mining exploration

Small mining exploration firms are finding it difficult to finance their projects. Last year, I announced a temporary mining exploration support program administered jointly by SOQUEM and the ministère de l'Énergie et des Ressources. The program has proved to be a success, as 29 exploration projects were approved, with a total budget of $4.4 million. I am therefore announcing that the program will be renewed for one more year with an additional budget of $5 million.

Flowthrough shares are a necessary source of financing for such firms, and should receive broader support. To accelerate the issuing of such shares, a temporary measure will be introduced to make a portion of the capital gain on these shares tax exempt.

I also intend to revise the additional deduction rates pertaining to such shares. Priority must be given to surface exploration, which is more decisive but riskier. For this reason, the deduction rates will be set at 125 % with respect to underground exploration costs, and 175 % for surface exploration costs.

$7 million for the forestry sector

Forests are one of our most valuable natural resources. The government has already done a great deal to develop private and public forests. However, it is prepared to do even more in order to create seasonal forestry jobs. For this reason, an additional $7 million will be granted in 1992-1993 to the ministère des Forêts.

$6 million for job creation in the Gaspésie — Îles-de-la-Madeleine region

Moreover, it seems necessary to support seasonal job creation in one region that is especially hard hit by unemployment. The seasonal job creation program in the Gaspésie and Îles-de-la-Madeleine region will once again receive $6 million, and municipalities in the region will again be able to participate in the program.

III. An Even More Prosperous Québec in the Future

While Quebecers are concerned first and foremost about short-term economic recovery, they nonetheless hope for durable, long-term development.

To satisfy these legitimate aspirations, the Québec economy must transform itself into an economy with high added value, the only way for it to remain competitive and generate numerous, quality jobs.

For this reason, since 1985, the government has made increased competitiveness the cornerstone of its economic strategy. Indeed, the government has made remarkable achievements. Measures introduced to foster research and development, worker training, the availability of venture capital and investment in automation have given Québec firms unrivalled if not unique advantages over our main competitors. Various government initiatives have placed Québec companies in a much better position to create jobs.

Our strategy in the coming years is just as clear. The economic policies the government has spelled out cover fields such as industrial clusters, technology, research and manpower training, to mention but a few. Numerous fiscal and budgetary policies have already been instigated to help attain these objectives. Given the scope of the challenge to be met, we must do even more, especially in terms of human resource development.

(A) Broaden worker training

The demands of the labour market in terms of occupational skills are growing constantly. It is overwhelming to note that, despite the more than 12 % unemployment rate, many Québec firms cannot find the qualified workers they need. For this reason, in the two previous Budgets I announced two major initiatives dealing with worker training.

Two-year extension of the increased tax credit

Two years ago, I adopted a refundable tax credit pertaining to worker training, aimed at businesses. To get the program started, the rates of the tax credit were increased to 40 % and 20 % until January 1, 1993. I am pleased to note that growing numbers of firms are taking advantage of this measure. Since it was introduced, over 100 000 workers have taken part in worker training initiatives launched by businesses. Encouraged by this result, and given the scope of needs, I am announcing that the increased rates will remain in force for another two years, until January 1, 1995.

Last year, I introduced a worker training assistance program aimed at individuals, designed to help the latter upgrade their skills when they have been on the labour market for several years. It gives me pleasure to announce that the program will be launched as planned in the coming weeks. Following an innovative agreement reached with the Mouvement Desjardins to ensure management of the program, workers will in the near future be able to obtain the necessary government assistance to finance their training through their local caisse populaire. My colleague the Minister of Manpower, Income Security and Skills Development will shortly unveil the relevant procedures and the point at which the Mouvement Desjardins will be in a position to accept workers' applications.

(B) Tackle the drop-out problem

Human resources development is also a challenge facing the education system. In Québec, nearly four young people out of ten leave high school before graduating. This situation is disturbing indeed. A growing proportion of the jobs that will be created in the coming years will demand at least a high school education. Drop-outs are likely to end up with poorly paid and, probably, uninteresting jobs. Above all, they risk living off unemployment insurance or social aid. This is an unconscionable waste of human resources.

$42 million for school boards

My colleague the Minister of Education has launched a vast campaign aimed at boosting the proportion of high school graduates to 80 % within five years. In light of the ensuing consultation, in which over 10 000 Quebecers from all over the province participated, a three-year action plan was drawn up that spells out the appropriate remedial measures and has rallied a broad consensus among partners in the education system. Above all, an attempt must be made to offer students prompt, personalized assistance when they experience difficulties at school or in the home. For this reason, the government will grant the school boards an additional $42 million starting in the next school year to enable them to adopt initial measures aimed at tackling the drop-out problem. The Minister of Education will shortly announce the measures adopted.

(C) Support worker-business partnerships

Businesses and workers must work together if Québec is to sell quality products on world markets. Increasingly, the most successful firms are those that deem their workers to be their greatest asset. As a result, they adopt innovative management methods with a view to drawing fully on the talent and skills of their employees.

It is encouraging to note that Québec has made appreciable progress in recent years with regard to cooperation between various economic partners. However, I believe that it is in our interests to further broaden the concrete manifestations of this solidarity. For example, barely 5 % manufacturing concerns have adopted a total quality program and only 2 % of collective agreements make provision for linking employee remuneration to company performance.

We must capitalize on the fact that attitudes have changed considerably in recent years, to such an extent that we can now accelerate various initiatives. To encourage companies to explore new ways of doing business, I am announcing the establishment of tax assistance aimed at workers and employers in the manufacturing sector who set up employee gain sharing plans accompanied by a total quality scheme.

Tax measures to encourage partnerships

Under this new measure, workers will not pay tax on the first $6 000 paid by an employee gain sharing plan over a five-year period. Moreover, to help small and medium-sized manufacturing concerns set up such plans, this Budget grants them a 15 % tax credit on funds paid by the gain sharing plan.

To enable employers to take advantage of this measure, the employee gain sharing plan must obtain a certificate attesting that the plan is tied to the company's performance and that the firm has implemented a total quality scheme. My colleague the Minister of Industry, Trade and Technology will announce in the near future the procedure governing the issuing of such certificates.

Workers and businesses that decide to take advantage of this measure will largely benefit therefrom, as will Québec society as a whole.

(D) Update Québec legislation governing professionals

Professionals are among the most valuable strategic human resources in an economy. However, Québec professionals must adapt to the deep-seated changes now taking place. The exercise of their professions has become more complex and often demands the acquisition of expertise of international calibre. These circumstances demand that companies be structured so that adaptation takes place more readily and skills are transmitted between generations in a firm.

Consequently, it is important that Québec legislation and regulations enable professionals to succeed to the best of their ability. As a result, my colleague the Minister responsible for the administration of legislation respecting the professions has already implemented a review of legislation governing professionals. The plan seeks in particular to simplify the regulatory process, facilitate the protection of the public, allow for the incorporation of professionals and ensure the self-financing of the enforcement of legislation governing professionals. An appendix outlines the fiscal implications of these changes.

IV. Financial Framework

I would now like to turn to the impact of the measures announced today on the government's financial framework and the results of the fiscal year just ended.

(A) 1991-1992 results

$4 195 million deficit in 1991-1992

The government's financial results have been affected by the sluggish economy during the year just ended. The government has decided to temporarily increase the deficit in response to prevailing economic conditions. In 1991-1992, the deficit should reach $4 195 million, a $715 million increase over the forecast in the last Budget Speech.

Own-source revenue was down $214 million. The postponement of the second phase of the sales tax reform and the financial results of government corporations explain by and large these downturns.

Federal transfers were $160 million lower than forecast in the last Budget. The improvements obtained at the latest Finance Ministers' Conference will only affect the government's financial framework starting in fiscal 1992-1993.

Expenditure was $341 million higher than anticipated, notably because of the economic situation, which increased the number of income security beneficiaries and the number of students enrolled at virtually all levels in the education system.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS[1]
(in millions of dollars)

	1990-1991	1991-1992		
	Real results	Budget Speech 1991-05-02	Preliminary results	Change
Budgetary transactions				
Revenue	33 006.4	34 895.5	34 521.5	– 374.0
Expenditure	– 35 831.2	– 38 375.5	– 38 716.5	– 341.0
Deficit	– 2 824.8	– 3 480.0	– 4 195.0	– 715.0
Non-budgetary transactions				
Investments, loans and advances	– 458.1	– 591.0	– 421.0	170.0
Retirement plans account	1 873.7	2 057.0	1 928.0	– 129.0
Allowance for water purification	—	22.0	21.0	– 1.0
Other accounts	– 72.9	– 208.0	– 8.0	200.0
Surplus	1 342.7	1 280.0	1 520.0	240.0
Net financial requirements	– 1 482.1	– 2 200.0	– 2 675.0	– 475.0
Financial transactions				
Change in cash position	– 280.7	—	– 466.0	– 466.0
Change in direct debt	1 762.8	2 200.0	3 141.0	941.0
Total financing	1 482.1	2 200.0	2 675.0	475.0

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

1 Financial data are shown based on the budgetary and financial structure in force for fiscal 1992-1993.

(B) 1992-1993 financial framework

The uncertain economic recovery prevailing in 1992-1993 has led us once again to give priority to boosting employment. It is against this backdrop that the government has decided to adjust its financial objectives, although doing so means forestalling a return to a balanced current account.

Financial objectives adapted to the economic backdrop

Anticipated economic growth in 1992 is slightly lower than what was forecast in the last Budget, although the most striking difference concerns inflationary trends. An inflation rate of nearly 4 % was anticipated last year ; the current rate is roughly 2 %.

It might be expected that a drop in inflation would have a neutral effect on the government's financial framework, as lower revenue would be offset by an equivalent drop in spending.

Such is not the case. Revenues adjust rapidly to lower inflation, but spending adjusts much more slowly because a considerable portion of it is governed by contracts such as collective agreements, or is indexed to the previous year's inflation rate.

This is precisely the situation in 1992-1993 : lower revenues have not been offset by an equivalent downturn in spending, with the result that the government has had to let the deficit climb to a higher level than was forecast last year.

Deficit reduced by $405 million

However, in light of the measures announced today with regard to expenditure and revenue, and bearing in mind the higher federal transfers obtained last January, we have succeeded in reducing the deficit by $405 million in relation to 1991-1992. Thus, the deficit should reach $3 790 million this year.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF 1992-1993 FINANCIAL TRANSACTIONS
(in millions of dollars)

Budgetary transactions	
Revenue	36 913
Expenditure	– 40 703
Deficit	**– 3 790**
Non-budgetary transactions	
Investments, loans and advances	– 432
Retirement plans account	1 828
Allowance for water purification	18
Other accounts	– 174
Surplus	**1 240**
Net financial requirements	**– 2 550**
Financial transactions	
Change in cash position	696
Change in direct debt	1 854
Total financing	**2 550**

Note : A negative entry indicates a financial requirement and a positive entry, a source of financing.

(C) Medium-term prospects

With economic recovery on the way, I feel that it is possible to reduce the deficit to $3 260 million in 1993-1994 and to $2 750 million in 1994-1995. The necessary spending cutbacks must be adopted to ensure that lower inflation leads to curtailed growth in spending over the next two years. Without jeopardizing economic recovery, we will gradually draw closer to our goal of balancing the current account.

As a percentage of gross domestic product, the deficit will decline from 2.7 % in 1991-1992, to 2.4 % this year and to 1.5 % in 1994-1995, nearly half the figure recorded in 1991-1992.

I therefore anticipate that the government's financial position will gradually right itself. The economic climate has obliged us to momentarily forestall achieving a balanced current account. Once the economy is back on its feet, we will pursue this goal with renewed determination.

Conclusion

I have tailored this Budget to the expectations and concerns of Quebecers.

A judicious austerity policy is enabling us to present a Budget containing significant relaxation of the requirements of the sales tax reform. Moreover, we have not raised any of the taxes paid by individuals.

This result is all the more remarkable as we have achieved it while reducing the deficit, despite the economic climate.

This Budget carries a reassuring message for Quebecers: although the government had to adjust the deficit objective in response to the economic situation, it is determined to do everything necessary to finish putting public finances in order.

Quebecers also expect the government to deal with the economy. We have not taken the path of least resistance to do so. We are advocating a reform of consumption taxes that will make Québec more competitive and create thousands of jobs. We will make available funds for economic support measures that will round out those already under way.

We have also bolstered innovative methods of achieving cooperation between workers, entrepreneurs and government decision-makers, a vital component of Québec society. We are stepping up investment in Québec's human resources. We are continuing to develop a taxation system that supports other strategic initiatives aimed at fostering economic growth and employment. We are providing Québec's regions with the means of spurring economic development.

Québec is adopting the means and marshalling the resources it needs to build a society worthy of our pride in it. Starting this year, we will grant families even broader support and will more strongly promote cultural development. In addition, we will maintain our efforts to assist the least privileged members of Québec society.

Our task is to enhance the present and prepare for the future. In response to Quebecers' demands, we are devoting ourselves wholeheartedly to this task. Quebecers' expectations are quite rightly high and they expect nothing less from their elected officials.

It is indeed an honour for me to be part of a team which, under the enlightened stewardship of the Prime Minister, is capable of carrying out this challenging but immensely satisfying mandate.

GOUVERNEMENT DU QUÉBEC
BUDGETARY REVENUE
1992-1993 FORECAST
(in millions of dollars)

Income and property taxes	
Personal income tax	11 682
Employer contributions to Health Services Fund	3 022
Corporates taxes[1]	2 273
	16 977
Consumption taxes	
Retail sales	6 160
Fuel	1 266
Tobacco	628
Other[2]	45
	8 099
Duties and permits	
Motor vehicles	545
Alcoholic beverages	131
Natural resources[3]	83
Pari-mutuel	22
Other	165
	946
Miscellaneous	
Sales of goods and services	538
Interest	325
Fines, forfeitures and recoveries	643
	1 506
Revenue from government enterprises[4]	
Société des alcools du Québec	350
Loto-Québec	464
Hydro-Québec	700
Other	– 14
	1 500
Total own-source revenue	**29 028**
Government of Canada transfers	
Equalization	4 279
Other transfers related to fiscal arrangements	1 707
Contributions to welfare programs	1 644
Other programs	255
Total Government of Canada transfers	**7 885**
Total budgetary revenue	**36 913**

1 Includes tax on corporate profits, tax on capital and tax on insurance company premiums.
2 Includes tax on telecommunications and on electronic advertising.
3 Includes forest, mining and hydraulic resources.
4 Includes the dividends declared and the change in surpluses or deficits accumulated by government enterprises, which are consolidated with a corresponding reevaluation of the investment held by the government.

GOUVERNEMENT DU QUÉBEC
BUDGETARY EXPENDITURE
1992-1993 FORECAST
(in millions of dollars)

Departments and agencies :	
Affaires culturelles	324.5
Affaires internationales	126.0
Affaires municipales	722.4
Agriculture, Pêcheries et Alimentation	693.5
Approvisionnements et Services	91.0
Assemblée nationale	81.1
Communautés culturelles et Immigration	120.9
Communications	117.0
Conseil du trésor	24.3
Conseil exécutif	171.1
Éducation	5 837.6
Énergie et Ressources	155.8
Enseignement supérieur et Science	3 492.8
Environnement	584.5
Finances	5 404.7
Forêts	322.9
Industrie, Commerce et Technologie	513.5
Justice	460.9
Loisir, Chasse et Pêche	218.5
Main-d'oeuvre, Sécurité du revenu et Formation professionnelle	4 110.7
Organismes relevant de la ministre déléguée à la Condition féminine	182.2
Organismes relevant du ministre délégué à l'Administration et à la Fonction publique	1 066.6
Organismes relevant du ministre responsable de l'application de la Charte de la langue française	28.5
Personnes désignées par l'Assemblée nationale	35.2
Régie de l'assurance-maladie du Québec	2 856.6
Revenu	379.5
Santé et Services sociaux	9 933.1
Sécurité publique	843.9
Tourisme	105.5
Transports	2 061.7
Travail	80.5
Allowance for doubtful accounts	150.0
Total	**41 297.0**
• Net lapsed appropriations	– 255.0
• Change in the allowance for loss on share investments[1]	– 23.0
Total expenditure announced in the Estimates	**41 019.0**
• Revision of the forecast	– 128.0
• Adjustement to wage offer	227.0
• Net impact of measures announced in the Budget	– 195.0
• Increase in net lapsed appropriation from $255 million to $475 million	– 220.0
Total probable expenditure	**40 703.0**

1 Allowance created when the accumulated deficit of a government enterprise exceeds the cost of investment in shares held by the government.

GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS
1992-1993 FORECAST
(in millions of dollars)

Investments, loans and advances	
GOVERNMENT ENTERPRISES	
Shares and investments	7.0
Change in the equity value of investments[1]	– 595.2
Loans and advances	194.7
Total government enterprises	**– 393.5**
INDIVIDUALS, CORPORATIONS AND OTHERS	– 41.0
MUNICIPALITIES AND MUNICIPAL BODIES	2.5
Total investments, loans and advances	**– 432.0**
Retirement plans account	
Employer and employee contributions	2 924.0
Benefits and other payments	– 1 096.0
Total retirement plans account	**1 828.0**
Allowance for water purification[2]	**18.0**
Other accounts	**– 174.0**
Total non-budgetary transactions	**1 240.0**

Note : A negative entry indicates a financial requirement and a positive entry, a source of financing.

1 Net amount including the change in the allowance for loss on share investments.

2 Inflow to this account consists of government contributions for the repayment of the long term borrowings of the Société québécoise d'assainissement des eaux. Disbursements consist of the payments of the borrowings when they come to maturity.

GOUVERNEMENT DU QUÉBEC
FINANCING TRANSACTIONS
1992-1993 FORECAST
(In millions of dollars)

Change in cash position	**696.0**
Change in direct debt	
New borrowings	3 389.0
Change in debt resulting from the proceeds of a currency swap contract[1]	—
Repayment of borrowings	– 1 535.0
Total change in direct debt	**1 854.0**
Total financing[2]	**2 550.0**

Note : A negative entry indicates a financial requirement and a positive entry, a source a financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a reduction.

1 Represents the differential, in the Canadian dollar equivalent as at the preceding March 31, between currencies cashed and those paid for during the fiscal year.

2 Excluding transactions carried out for the financing fund.

APPENDIX A

Fiscal and Budgetary Measures

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1. Improving the tax system pertaining to individuals and providing assistance for families

The measures announced in the 1992-1993 Budget Speech with regard to the taxation of individuals and families reflect the policy pursued by the government since 1986. The two main objectives of this policy are to ensure that Québec's tax system remains competitive compared with the systems of its principal trading partners and to encourage the members of low-income households to work. To achieve this, the disposable income of such households has been increased when their members enter the labour market, the levels at which they begin to pay taxes have been raised, and an income security plan promoting the employability of recipients of last resort assistance has been implemented. Finally, the government has maintained its objective of recognizing family obligations by increasing financial assistance for families with children, particularly by making the tax system fairer for families and providing allowances for newborn children.

The measures announced in the 1992-1993 Budget Speech regarding the tax and transfer systems as they pertain to individuals include, in particular, the adjustment of the needs scales of the Employment Incentives (EI) and the Parental Wage Assistance (PWA) programs by 2 % effective January 1, 1993. Most personal tax credits as well as family allowances and allowances for young children will also be indexed. In addition, tax thresholds for families will be raised to match the increase in the benefits of income security programs and the new federal child benefit. Unlike present federal family allowances, this new benefit will not be taxed by Québec. Financial assistance for children will also be improved by raising the allowance for newborn children granted to large families, by easing the rules governing the allowance for newborn children with regard to age at the time of adoption and by increasing the tax deduction for child care expenses.

A new refundable tax credit will be introduced to assist taxpayers whose parents live with them. This tax credit, which is in keeping with the government's family policy, makes the tax policy pertaining to families even more favourable. Certain tax provisions are also modified to better reflect the special situation of parents of sick children living away from home. In addition, the tax treatment of common-law couples will be changed to complete the tax reform begun in Québec in 1986 and to make it more compatible with the changes introduced in the recent federal budget. Measures to increase housing assistance for low-income households are also included in the present Budget. In particular, the housing allowance for households with children receiving income security will be increased, while the SHELTER AID program will be extended to make it accessible to more low-income earners.

Lastly, various provisions improve the tax system pertaining to handicapped persons or persons suffering from a serious disease. The medical expense tax credit will be broadened to take into account certain goods and services and moving expenses.

These measures will increase disposable household income by $345 million in 1993. Families with children will benefit from a large proportion of this increase, i.e. 75 % or $258 million.

IMPACT OF MEASURES CONCERNING TAXATION AND TRANSFER SYSTEMS, BY TYPE OF HOUSEHOLD

Type of household	Total impact of measures (in millions of dollars)	Distribution among households (in %)
Single persons	29	8
Childless couples	46	13
Families with children	258	75
The elderly	12	4
Total	**345**	**100**

1.1 Indexing based on recognized needs in 1993

The amounts representing essential needs recognized under the tax system and the PWA and EI programs will be increased by 2 % in 1993 to reflect the increase in the cost of living in 1992.

Indexing of the needs scales of the EI program

To ensure that households benefiting from the EI program maintain their purchasing power, needs scales will be indexed by 2 % effective January 1, 1993. Other provisions of income security programs, in particular those concerning the housing allowances, the housing means test, the reduction for the sharing of dwellings and parental contributions will also be adjusted by 2 %.

In 1993, EI program beneficiaries will receive $47 million, an amount equivalent to the impact of indexation. The appropriations of the ministère de la Main-d'oeuvre, de la Sécurité du revenu et de la Formation professionnelle for 1992-1993 will be raised accordingly.

Furthermore, in accordance with existing regulations, the needs scales of the Financial Support program for persons with serious employment constraints will be adjusted on January 1, 1993 using the Pension Index.

Indexing of the PWA program

The family thresholds of the PWA program, which are used to compute the benefits paid to families under the program, will also be indexed by 2 % in 1993. These thresholds are presented in the section entitled "Application".

This measure will increase the income threshold at which PWA program benefits cease. For example, the threshold for a couple with two children and only one work income will rise from $25 714 in 1992 to $26 251 in 1993.

INCOME AT WHICH ELIGIBILITY FOR PWA PROGRAM ENDS
(in dollars)

	1992	1993
Couple with two children, 6-11		
☐ one work income	25 714	26 251
☐ two work incomes		
— before deduction for child care expenses	26 304	26 845
— after deduction for child care expenses	31 292	33 306
Couple with one child under 6		
☐ one work income	23 770	24 255
☐ two work incomes		
— before deduction for child care expenses	24 305	24 798
— after deduction for child care expenses	29 294	30 227
Single-parent family with one child under 6		
— before deduction for child care expenses	18 899	19 252
— after deduction for child care expenses	23 761	24 543

Note: For couples with two work incomes, one spouse earns 60 % of the household income and the other, 40 %.

Increase in tax thresholds

The indexation of benefits under the PWA and EI programs makes it necessary to raise the tax thresholds for families to maintain the harmonization of the tax system and income security programs. To raise the thresholds, the tax reduction for families and the additional attendant deduction will be adjusted to take into account the fact that federal family allowances will no longer be taxed. As of January 1993, these allowances will be integrated into the new federal child benefit.

As a result of this measure, the income at which a couple with two children and only one work income will begin to pay taxes will increase from $25 715 in 1992 to $26 428 in 1993. This will ensure that the tax and transfer systems continue to be harmonized.

COMPARISON OF INCOME LEVELS AT WHICH INCOME TAX IS PAYABLE (in dollars)

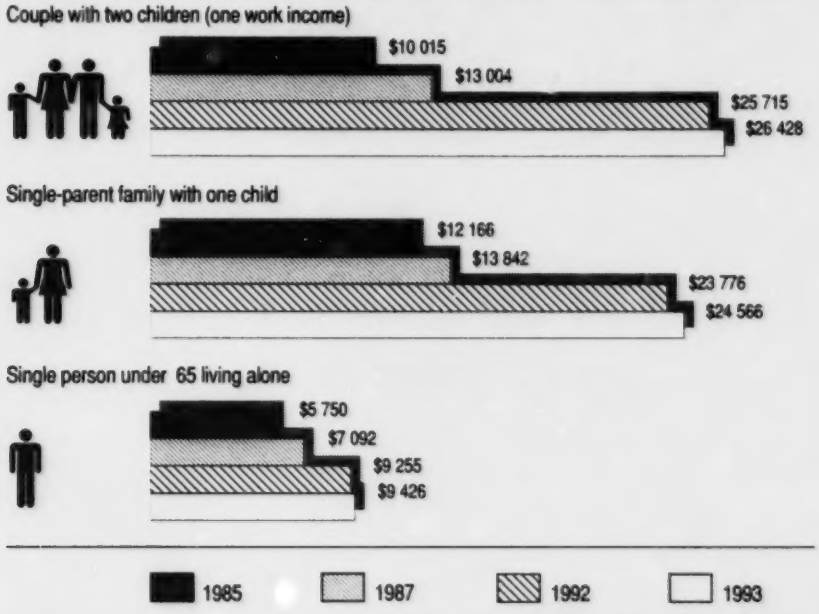
	Taxation year		
	1985	1992	1993
Couple with two children, 6-11			
☐ one work income	10 015	25 715	26 428
☐ two work incomes			
— before deduction for child care expenses	11 388	28 200	28 986
— after deduction for child care expenses	14 063	33 297	35 556
Couple with one child under 6			
☐ one work income	10 015	24 010	24 287
☐ two work incomes			
— before deduction for child care expenses	11 388	26 278	26 567
— after deduction for child care expenses	13 656	31 313	32 013
Single-parent family with one child under 6			
— before deduction for child care expenses	10 015	18 913	19 275
— after deduction for child care expenses	12 166	23 776	24 566
Childless couple under 65			
— one work income	10 015	14 746	15 024
— two work incomes	11 388	14 302	14 581
Childless couple 65 or over			
— retired	17 164	17 246	17 402
Single person under 65			
— living alone	5 750	9 255	9 426
— sharing a dwelling unit	5 750	8 031	8 177
Retired single person 65 or over			
— living alone	9 584	11 645	11 793
— sharing a dwelling unit	9 584	10 561	10 687

Note 1: For couples with two work incomes, one spouse earns 60 % of the household income and the other, 40 %.

Note 2: For taxpayers under 65, the income corresponds to work income. For those 65 or over, the income includes retirement and investment income, as well as income from old age security transfers.

The principle of not taxing the essential needs of taxpayers and the other members of their family, introduced in 1986, has raised tax thresholds substantially. For example, the income at which a couple with two children will begin to pay taxes will increase to $26 428 in 1993, compared with $10 015 in 1985. Similarly, the tax threshold for a single-parent family with a young child will rise to $24 566 in 1993, compared with $12 166 in 1985.

INCOME TAX THRESHOLDS
(in dollars)



Indexing of tax credits

Recognized basic needs under the tax and transfer systems are also calculated on the basis of the amounts representing essential needs. The amounts used to compute personal tax credits are generally the same as those used to establish needs scales under the EI program and family thresholds under the PWA program. When income security benefits are indexed, the amounts representing essential needs recognized for purposes of the tax system must be indexed at the same rate to maintain the harmonization of the tax and transfer systems. Consequently, the amounts used to compute basic personal tax credits and the tax credits for married persons, dependent children, other dependants, single-parent families and persons living alone will be increased by 2 % in taxation year 1993.

The basic personal amount and the amount for a married person will rise from $5 780 to $5 900, so that the tax credits for these two categories will increase from $1 156 to $1 180. The amount for dependent children will be raised to $2 600 for the first child and to $2 250 for each additional child. Consequently, the tax credit for the first dependent child will increase from $510 in 1992 to $520 in 1993, while the credit for each additional child will move up from $441 in 1992 to $450 in 1993. Since the amount recognized for the first dependent child in post-secondary studies is equal to the amount recognized for basic essential needs, i.e $5 900 in 1993, the amount per term for post-secondary studies will be raised from $1 615 in 1992 to $1 650 in 1993.

The amount granted to persons living alone or with one or more dependent children will be increased from $1 030 in 1992 to $1 050 in 1993. Since the amount for a single-parent family corresponds to 50 % of the amount recognized for the first dependent child, it will be raised from $1 275 in 1992 to $1 300 in 1993.

The amount of the tax reduction for families will also be adjusted in 1993 to take into account the indexing of recognized needs by 2 % and the treatment of the new federal child benefit under the Québec tax system. The amount of the tax reduction for a couple with children will be increased to $1 310 in taxation year 1993. For a single-parent family, the reduction will be $1 025 for an individual not sharing a dwelling with another adult, and $785 for an individual sharing a dwelling with another adult.

To establish the amount of the tax reduction for families, the total income of the applicants and of their spouses, less the amounts representing recognized essential needs for the personal tax credits claimed, are taken into account. To reflect the zero tax thresholds, an additional deduction is provided. For a couple with children, the deduction will be $7 860 in taxation year 1993. The deduction for a single-parent family will be $5 585 or $6 680 in 1993, depending on whether or not the parent shares a dwelling with another adult. These deductions are also taken into account for purposes of the property tax refund and the refundable sales tax credit. In addition, the income of dependent children exempt for purposes of the tax reduction for families will be adjusted, increasing from $5 780 in 1992 to $5 900 in 1993.

The changes in the deduction ceilings on child care expenses are presented in the section entitled "Additional support for children."

The maximum amount of allowable taxes giving entitlement to the property tax refund will be indexed by 2 %, increasing to $1 285 in 1993. The amount equal to the amount of the property tax included in recognized essential needs will also be increased in 1993, from $280 to $290.

The new amounts for personal tax credits, the tax reduction for families, the deduction ceilings on child care expenses, and the property tax refund are shown in the following table.

The amounts of the basic family allowances, allowances for young children and additional allowances for handicapped children will also be indexed by 2 % on January 1, 1993. The table in the following section shows the amounts of monthly allowances to be paid in 1993.

RECOGNIZED ESSENTIAL NEEDS AND THEIR TAX CREDIT VALUE, TAX REDUCTION FOR FAMILIES, DEDUCTION CEILINGS FOR CHILD CARE EXPENSES AND PROPERTY TAX REFUND
(in dollars)

	Taxation year 1992		Taxation year 1993	
	Amount for recognized essential needs	Value of tax credit[1]	Amount for recognized essential needs	Value of tax credit[1]
1. Recognized essential needs				
☐ Basic	5 780	1 156	5 900	1 180
☐ Person living alone	1 030	206	1 050	210
☐ Married person	5 780	1 156	5 900	1 180
☐ Dependent children				
— general				
first child	2 550	510	2 600	520
second child and subsequent children	2 205	441	2 250	450
— for children in post-secondary studies (per term)[2]	1 615	323	1 650	330
— for single-parent family[3]	1 275	255	1 300	260
☐ Other dependants[4]				
— general	2 205	441	2 250	450
— disabled[5]	5 780	1 156	5 900	1 180
	Additional deduction for tax reduction purposes	**Value of tax reduction**	**Additional deduction for tax reduction purposes**	**Value of tax reduction**
2. Tax reduction for families				
☐ Couple with children				
— with federal family allowances	8 000	1 380	—	—
— without federal family allowances[6]	7 710	1 270	7 860	1 310
☐ Single-parent family				
— living alone				
• with federal family allowances	6 840	1 055	—	—
• without federal family allowances[6]	6 570	1 000	6 680	1 025
— sharing a dwelling unit				
• with federal family allowances	5 910	950	—	—
• without federal family allowances[6]	5 505	765	5 585	785
3. Deduction ceilings for child care expenses				
☐ Child under 7 or with an impairment	4 600		5 000	
☐ Other child	2 300		3 000	
4. Property tax refund				
☐ Maximum allowable property tax	1 260		1 285	
☐ Value of property tax included in an adult's essential needs	280		290	

1 The amounts for recognized essential needs have been converted into tax credits, at the rate of 20 % of the amount of recognized needs.

2 The tax credit for post-secondary studies is limited to two terms.

3 The tax credit for single-parent families is equal to 50 % of the tax credit for the first dependent child, and is added to it.

4 Other dependants include anyone 18 years old or over related to the taxpayer by blood, marriage or adoption.

5 This tax credit cannot be added to the general tax credit for other dependants.

6 The amounts represent those that would have been in force in 1992 if the new federal child benefit had replaced federal family allowances in particular, beginning in 1992.

1.2 Additional support for children

Allowances for newborn children

Increase in the allowance for the third child and each additional child

Currently, a Québec family receives an allowance of $500 on the birth of the first child and $1 000 for the birth of the second child. For each additional child, the allowance is $7 500, paid in 20 quarterly instalments of $375 over the five years following the birth of the child.

To provide more assistance for large families, the allowance for newborn children for the third child and each additional child will be increased by $500, from $7 500 to $8 000.

It will be paid in 20 quarterly instalments over the five years following the child's birth. These payments, which currently amount to $375 each, will be raised to $400. This increase will generally be applicable to instalments payable as of May 1992.

This measure will provide $7 million in additional assistance for families over a full year.

Easing of the rules concerning the age of children at the time of adoption

At present, when a child adopted by a Québec family is a first or a second child, the family may be entitled to an allowance of $500 or $1 000, provided that the parents take charge of the child before he reaches the age of two. In addition, for each child after the second child adopted while under the age of five, the family may receive quarterly payments of $375 ceasing in the first month of the quarter in which the child turns five, with a minimum of one payment of $375.

To better take into account the length of the adoption process and to harmonize the age criteria used for purposes of the rules concerning alllowances for newborn children, a family which adopts its first or second child will receive an allowance of $500 or $1 000, as the case may be, provided that it takes charge of the child before he reaches the age of five, rather than age two as is presently the case. In addition, provisions will be introduced to ensure that families which adopt a third or additional child may, on certain conditions, be entitled to an allowance for newborn children which is no lower than the allowance that the family would have received for the adoption of a second child.

These changes apply to children adopted by Québec families whose adoption order was issued after April 1992.

FAMILY ASSISTANCE ALLOWANCES BEFORE AND AFTER BUDGET SPEECH
(in dollars)

Allowance for newborn children			Monthly allowance				
				1992		1993	
Rank of child	Before Budget	After Budget	Age :	Under 6 years	6 to 17 years	Under 6 years	6 to 17 years
First	500	500	Family allowance :	10.70	10.70	10.91	10.91
			Allowance for young children :	9.58		9.77	
				20.28		20.68	
Second	1 000 (500 at birth and 500 on 1st birthday)	1 000 (500 at birth and 500 on 1st birthday)	Family allowance :	14.25	14.25	14.54	14.54
			Allowance for young children :	19.15		19.53	
				33.40		34.07	
Third	7 500	8 000	Family allowance :	17.82	17.82	18.18	18.18
	(20 quarterly payments of 375)	(20 quarterly payments of 400)	Allowance for young children :	47.87		48.83	
				65.69		67.01	
Fourth and subsequent	7 500	8 000	Family allowance :	21.35	21.35	21.78	21.78
	(20 quarterly payments of 375)	(20 quarterly payments of 400)	Allowance for young children :	47.87		48.83	
				69.22		70.61	

Increase in the child care expense deduction

At present, the ceiling on the deduction for child care expenses is $4 600 for a child under 7 or a child with a prolonged, severe mental or physical disability regardless of his age. The ceiling for other children under 15 at the end of the taxation year is $2 300 for each eligible child.

To better reflect child care expenses, the deduction ceilings for such expenses will be raised substantially in taxation year 1993.

The ceiling of $4 600 for children under 7 or children with a physical or mental disability will be increased to $5 000 in 1993. The ceiling of $2 300 for other children will be raised to $3 000. This increase will help families to meet child care expenses incurred to earn income, for instance low-income families receiving benefits under the PWA program.

This measure will increase government financial support for children by $3 million over a full year.

End to the taxation of federal family allowances integrated into the new federal child benefit

On February 25, 1992, the federal Minister of Finance announced that, as of January 1, 1993, a new tax benefit for children, to be paid monthly, will replace family allowances, the non-refundable child tax credit and the refundable child tax credit. This new federal benefit will include a basic benefit, which may be adjusted by the provinces according to the rank and age of the child, additional benefits for the third child and each additional child, other benefits for children under 7, and a new earned-income supplement.

At present, federal family allowances are taxed under the Québec system. This situation is identical to that prevailing in the federal tax system and the systems of the other provinces. In addition, these allowances are included in the calculation of total income, particularly for purposes of tax credits and the property tax refund.

In 1993, the Québec tax system as it pertains to children will be adjusted to take into account the fact that federal family allowances, to be integrated into the new federal child benefit, will no longer be taxed. Therefore, the current additional increase in the tax reduction for families and in the additional deduction will no longer be necessary, since the new federal benefit will not constitute income for tax purposes. This measure will increase disposable household income by $70 million in 1993.

Under its present family policy, the Québec government adjusts federal family allowances on the basis of the rank and age of the child, in accordance with existing federal legislation. The Québec government plans to continue this practice since it will also be possible to adjust this new federal tax benefit. Consequently, the new basic federal benefit will be adjusted so that it corresponds to the sum of the amount of present federal family allowances and the amount of the refundable child tax credit. The following table shows the annual amounts of the new basic federal benefit and of the other benefits that it replaces.

FEDERAL FAMILY ALLOWANCE AND REFUNDABLE TAX CREDIT VS NEW BASIC FEDERAL BENEFIT (in dollars per year)

	Current amounts in 1992			Amounts in 1993
Rank of child	Federal family allowance in Québec	Basic refundable tax credit	Total amount	New basic federal benefit in Québec
First	268	601	869	869
Second	399	601	1 000	1 000
Third and subsequent	996	601	1 597	1 597

Note : The additional annual amount of $103 for a child aged 12 to 17 is maintained.

1.3 Recognizing certain social situations

Adults housing direct ascendants

Traditionally, families have provided support for elderly people. However, this role, which is socially satisfying for both families and the elderly, is harder to fill than in the past and, owing to the aging of the population, places more pressure on the number of places available in reception and accommodation centres. To support families in assisting the elderly, a new refundable tax credit is introduced in the 1992-1993 Budget Speech.

This tax credit will be equivalent to 20 % of $2 200 for each of an adult's eligible ascendants. For example, an adult who houses his father, mother, grandfather or grandmother, or any other direct ascendant, will be eligible for a credit of $440 for each direct ascendant, which cannot be reduced because of the income of the direct ascendant.

In general, the credit will be provided for a direct ascendant aged 70 or over on December 31 of the taxation year. A direct ascendant under 70 may also be considered eligible if he is aged 60 or over and suffers from a prolonged, severe mental or physical disability. To be entitled to the credit, a taxpayer will generally have to have had a parent, grandparent or other direct ascendant living with him for 12 consecutive months, six of which fall within the taxation year. Additional information is provided on this measure in the section entitled "Application".

The new refundable tax credit will come into effect in taxation year 1992. The disposable income of adults who house direct ascendants will be increased by $22 million over a full year.

Sick children living away from home

At present, a person may be eligible for a tax credit for a dependent child if, among other conditions, the child usually lives with him during the year. This condition is meant to ensure that all essential needs recognized for children under the Québec tax system have been satisfied by the person who claims the tax credit.

In addition, when a person incurs health care expenses for the dependent child, these expenses may be eligible for the medical expense tax credit. Furthermore, when a person is entitled to a tax credit for a dependant who, because of his state of health, is eligible for a tax credit for prolonged, severe mental or physical disabilities, the person may claim the amount of the tax credit which is transferred to him by the dependant.

When the state of health of a minor makes it necessary to place him in a health establishment or a foster family, the parents are required to contribute monthly to accommodation expenses. The amount of the contribution is designed to reflect the minimum cost of keeping the child at home. However, the parents of a minor may request that they be exempted from paying this maximum contribution, if their income is below a certain level. In this case, the accommodation contribution cannot be less than a minimum amount. Since the child does not usually live with his parents, they are not eligible for the Québec child tax credit, even though they assume certain responsibilities. In addition, since the child cannot be considered a dependant for purposes of the Québec tax system, the parents will not be eligible, in his regard, for the medical expense tax credit or the tax credit for prolonged, severe mental or physical disabilities.

To take into account the fact that parents assume part of the responsibility for these children, a person who does not usually live with a parent even though he is the latter's child may be considered a dependant for purposes of the parent's personal tax credits if the child is dependent because of a physical or mental disability. If the person is aged 18 or over on the first day of the taxation year, he may be considered to fall into the category of other dependant for the same purposes. The parent may therefore be entitled, in regard to the child, to the medical expense tax credit and the tax credit for prolonged, severe mental or physical disabilities, as the case may be.

The broadening of the notions of child and other dependant applies as of taxation year 1986.

Tax status of common-law spouses

Several measures have been introduced to ensure that common-law spouses and married persons generally receive the same treatment under the Québec tax system. Common-law couples are no longer entitled to a higher tax credit for dependent children than that granted to married persons. In addition, particularly for purposes of the tax reduction for families, the property tax refund and the refundable Québec sales tax credit, common-law spouses and married persons are subject to the same rules, since the notion of spouse includes a person who has cohabited with another person for at least one year. However, common-law spouses are not subject to the rules limiting the transfer of income from property between married persons and are not entitled to the tax credit for married persons.

On February 25, 1992, the federal Minister of Finance announced that the federal tax rules applicable to married persons will also apply to common-law spouses as of taxation year 1993. For this purpose, two persons of the opposite sex living together in a relationship comparable to marriage will be considered common-law spouses, provided they have lived together for at least 12 months or are the natural or adoptive parents of a child.

In several respects, the federal measure harmonizes the federal tax system with that of Québec by ensuring that taxpayers with the same family obligations pay the same taxes, whether they are married or not. However, it introduces new elements compared to the Québec tax system, particularly by making common-law spouses also subject to the rules limiting the transfer of income from property between married persons and by granting the tax credit for married persons.

To provide more assistance for families, while ensuring better integration of the Québec tax system and income security programs, the changes in the federal tax legislation with regard to common-law spouses will be incorporated into Québec's tax legislation, by adapting them to its general principles. In addition, the criteria for the definition of common-law spouse used for purposes of the property tax refund, the refundable Québec sales tax credit and the tax reduction for families will be adjusted to take into account the criteria for the definition of common-law spouse applicable to the legislation as a whole. Lastly, the other tax laws will be adapted, if necessary.

These changes, which represent $30 million over a full year, make the tax system fairer and will apply as of taxation year 1993.

1.4 Miscellaneous measures

Enhancement of housing assistance

Housing assistance tied to income security

Families benefiting from income security programs are entitled to a housing allowance when they pay high housing costs. The allowance covers up to 75 % of housing costs in excess of a threshold rent, up to the applicable ceiling rent.

In order to further compensate less affluent families who pay high housing costs and to help them better house themselves, the ceiling rent will be raised as of January 1, 1993, when it will be equivalent to the threshold rent, adjusted to take into account the 2 % indexation applicable on the same date, in addition to a fixed sum of $120. The following table indicates the amounts now in effect and those that will apply starting on January 1, 1993.

Provision has been made in assistance of last resort to avoid excess coverage of the cost of housing with regard to a household that spends less on housing than the minimum cost. The benefit will be adjusted for households that spend less than a minimum charge of $125 for a single adult, plus $20 per additional person in the household, up to a maximum of $200. The adjustment of the benefit will be equivalent to the amount by which the minimum cost exceeds the actual housing cost. In 1992, the adjustment may not exceed $98 per month.

In order to better harmonize the various housing assistance programs, this provision aimed at applying a means test to the cost of housing is being overhauled. Starting January 1, 1993, the minimum cost used to adjust the benefit will be equivalent to the minimum rent demanded in low rental housing. The establishment of a minimum rent in low rental housing is based on the income of a household classified in the non-participating EI category. As a result of the 2 % indexing, the maximum adjustment with regard to the housing means test will be $100 a month in 1993.

Changes in housing assistance tied to income security will increase the disposable income of low-income families by $6 million over a full year of application.

THRESHOLD AND CEILING RENTS PERTAINING TO THE HOUSING ALLOWANCE (dollars per month)

	1992		1993		Budget increase	
Household	Threshold rent	Ceiling rent	Threshold rent	Ceiling rent	Threshold rent	Ceiling rent
Single-parent family						
☐ one child	353	425	359	479	6	54
☐ two children	372	448	379	499	7	51
☐ three children	381	460	389	509	8	49
☐ four or more children	388	467	395	515	7	48
Couple with children						
☐ one child	372	448	379	499	7	51
☐ two children	381	460	389	509	8	49
☐ three or more children	388	467	395	515	7	48

Extension of the SHELTER AID program

The SHELTER AID housing allowance program aimed at low income earners 60 or over who allocate a fairly large proportion of their income to housing costs. At present, to be eligible, the individual must be 60 or over between October 1 of the year in which the SHELTER AID allowance is requested and September 30 of the following year.

In order to assist even greater numbers of low-income households to improve their housing conditions and reduce their housing costs, over the next five years, the government will gradually lower the age of eligibility for the program to 55. This measure will apply as of October 1, 1992.

Between October 1, 1992 and September 30, 1993, an individual or his spouse, as the case may be, who is 59 or over will be eligible for the SHELTER AID program, provided he or she complies with the other eligibility criteria pertaining to the program.

This extension of the SHELTER AID program will, when fully implemented, increase the disposable income of the households concerned by $8 million a year.

Enhancements with respect to the handicapped or the seriously ill

Eligibility of moving expenses related to medical treatment not available in the region

At present, a taxpayer may be entitled to a non-refundable tax credit equivalent to 20 % of moving and housing expenses paid during the year so that the taxpayer or a dependant may obtain medical care in Québec that is not available within 250 km of the taxpayer's residence. To this end, the taxpayer must submit a certificate signed by the attending physician attesting that these requirements have been met.

However, this measure does not apply when the taxpayer or the dependant must undergo medium or long-term treatment requiring frequent care that is not available in the region of residence and the taxpayer or dependant moves in order to be closer to the health establishment where the necessary medical care can be provided. Under the federal and Québec taxation systems, the eligible moving expenses that the taxpayer has paid to enable him to hold a new job, set up a new business or engage in full-time study may, under certain conditions, be deducted when income is calculated. The eligible moving expenses include, in particular, meal and temporary housing expenses for up to 15 days, incurred near the former or the new residence, costs incurred when the old residence is sold, and legal expenses pertaining to the purchase of a new residence.

In order to take better account of situations requiring prolonged care that can only be provided in a Québec health establishment located 250 km or more from the taxpayer's residence, expenses eligible for the 20 % tax credit granted with respect to travel and housing expenses will be broadened to include moving expenses. A taxpayer may benefit from this measure when he moves in order to reside closer to such an establishment, so that he or a dependant can obtain medical care, provided that a certificate signed by the attending physician and the director general of the establishment where the attending physician is practising or his delegate attests that the medical care can only be provided in a Québec health care establishment located 250 km or more from the taxpayer's former place of residence. Moreover, the attending physician must certify that it is reasonable to expect that the treatment will last at least six months.

To this end, eligible moving expenses will be identical to those recognized for the purpose of the deduction for moving expenses. Such moving expenses may entitle the taxpayer to the 20 % tax credit, provided that he is unable to deduct them elsewhere when calculating his income and that they have not been refunded, except when such a refund or any allowance received in this respect is included in the calculation of the taxpayer's income.

This measure applies to moving expenses paid after the day of the Budget Speech.

Broadening of the tax credit for medical expenses

At present, tax relief may be granted to an individual who pays on his own behalf or on behalf of his spouse or a dependant expenses that are eligible for the tax credit for medical expenses.

In order to better take into account the special needs of the handicapped and progress in the health field that facilitates their integration into society, expenses related to the following new goods and services will be deemed medical expenses eligible for this tax credit :

- visual or vibrating warning devices, such as visual fire alarms, intended for the hearing impaired ; and

- the cost of reeducation programs aimed at compensating the loss of speech or hearing, especially sign language or lip-reading courses.

This measure will apply starting in the 1992 taxation year.

Deduction for the cost of enhancing access to the workplace

The Québec taxation system encourages businesses to outfit buildings and adapt equipment in order to better satisfy the special needs of handicapped employees or customers, by allowing them to immediately deduct the cost of such improvements. This measure is intended to facilitate the social integration of the handicapped.

With a view to extending its application, eligible expenses pursuant to this measure will now include expenses incurred to install or acquire, for the benefit of the sight and hearing impaired, devices to indicate the position of an elevator cage, visual fire alarms, telephone devices, listening devices for meetings, and computer software and hardware for the use of the handicapped.

This measure will apply to expenses incurred after February 25, 1992.

1.5 Impact of the measures

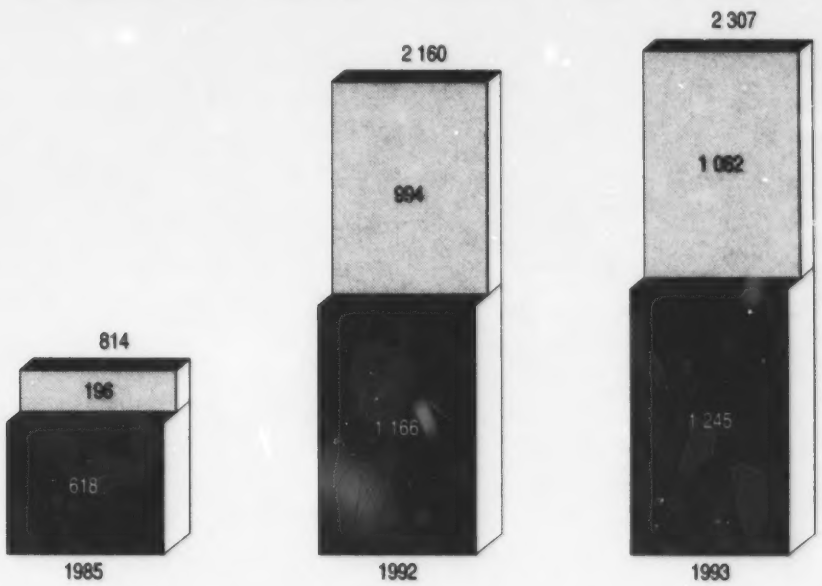
Impact on financial support for children

The second family policy action plan for years 1992-1994 was unveiled on April 13. Financial support for families is one of the five government policy directions set forth in the action plan.

Since 1985, financial support with respect to children has increased by roughly $1.5 billion, from $814 million in 1985 to $2.307 billion in 1993.

This situation reflects the government's determination to compensate families for a portion of the financial burden that they assume to raise their children. This increase in financial support has benefited all families, although it has focused on large families and on low-income families.

GOVERNMENT FINANCIAL SUPPORT FOR CHILDREN (in millions of dollars)



1 Transfers include the amounts granted for children in the form of allowances, income security transfers (social aid, PWA and work income supplement), the maternity allowance, subsidies for child care expenses from the OSGE, and the Downpayment Assistance Program. Allowances include basic family allowances, allowances for young children (or availability allowances) and allowances for newborn children. The amounts are recorded in the year families receive them.

2 Income tax reductions represent the impact on income tax payable of measures applicable to dependent children under the tax system. These measures include the exemptions or the non-refundable tax credits for dependent children, the exemption or credit for the first child of a single-parent family, the exemption or credit for a child in post-secondary studies, the child care expenses deduction and the income tax reduction for families. Where applicable, the taxation of federal family allowances and the recovery of federal family allowances are also taken into account. The impact of the measures is recorded in the taxation year they are in force.

Government support for the child of a family with an income of $30 000 will increase from $95 in 1985 to $1 722 in 1992 and $1 744 in 1993. In such a family with two children, the support will increase from $521 in 1985 to $2 545 in 1992 and $2 693 in 1993. A family with three children received $880 in 1985 and will receive $5 168 in 1992, and $5 637 in 1993.

QUÉBEC AND FEDERAL GOVERNMENT FINANCIAL SUPPORT FOR CHILDREN COUPLE WITH $30 000 IN WORK INCOME
(in dollars)

	1985	1987	1989	1990	1992	1993
Québec government support						
☐ For one child	95	392	1 099	1 380	1 722	1 744
☐ For two children	521	938	1 802	2 127	2 545	2 693
☐ For three children	880	1 431	4 188	4 571	5 168	5 637
Federal government support						
☐ For one child	580	552	523	558	652	767
☐ For two children	1 371	1 427	1 616	1 670	1 817	1 878
☐ For three children	2 551	2 701	3 181	3 259	3 474	3 763
Total support						
☐ For one child	674	944	1 622	1 937	2 375	2 511
☐ For two children	1 893	2 365	3 418	3 797	4 361	4 571
☐ For three children	3 431	4 132	7 368	7 830	8 642	9 400

Note 1 : For illustration purposes, support is for a couple, one spouse of which has a work income, that incurs no child care expenses. The child in the first example is 7 years of age. In the case of a couple with two children, the children are 2 and 7. The couple with three children has a newborn child, a child 2 years old and a child 7 years old.

Note 2 : Québec's financial support includes PWA benefits, the reduction in income taxes because of dependent children, family allowances and all the other allowances. The federal government support stems from the reduction in income taxes because of dependent children, family allowances and the refundable child tax credit. In 1993, the new federal child benefit will also be considered part of federal support.

Note 3 : The 1993 structure takes the Consumer Price Index into consideration where applicable.

Note 4 : The total may not correspond to the sum of the items because of rounding off of each item.

Financial support for a family with $50 000 in income will have increased significantly during this period. In the case of such a household with one child, the support increased from $95 in 1985 to $933 in 1992 ; it will rise to $958 by 1993. In the case of such a family with two children, the support increased from $521 in 1985 to $1 755 in 1992, and will reach $1 907 in 1993. In the case of a family with three children, the corresponding figures are $880, $4 378 and $4 851.

QUÉBEC AND FEDERAL GOVERNMENT FINANCIAL SUPPORT FOR CHILDREN COUPLE WITH $50 000 IN WORK INCOME
(In dollars)

	1985	1987	1989	1990	1992	1993
Québec government support						
☐ For one child	95	425	503	583	933	958
☐ For two children	521	991	1 149	1 330	1 755	1 907
☐ For three children	880	1 494	3 508	3 794	4 378	4 851
Federal government support						
☐ For one child	350	327	243	257	269	267
☐ For two children	799	742	594	670	817	878
☐ For three children	1 628	1 712	2 124	2 205	2 474	2 763
Total support						
☐ For one child	445	752	745	840	1 201	1 225
☐ For two children	1 320	1 733	1 743	2 000	2 572	2 785
☐ For three children	2 508	3 206	5 632	5 999	6 852	7 614

Note 1 : For illustration purposes, support is for a couple, one spouse of which has a work income, that incurs no child care expenses. The child in the first example is 7 years of age. In the case of a couple with two children, the children are 2 and 7. The couple with three children has a newborn child, a child 2 years old and a child 7 years old.

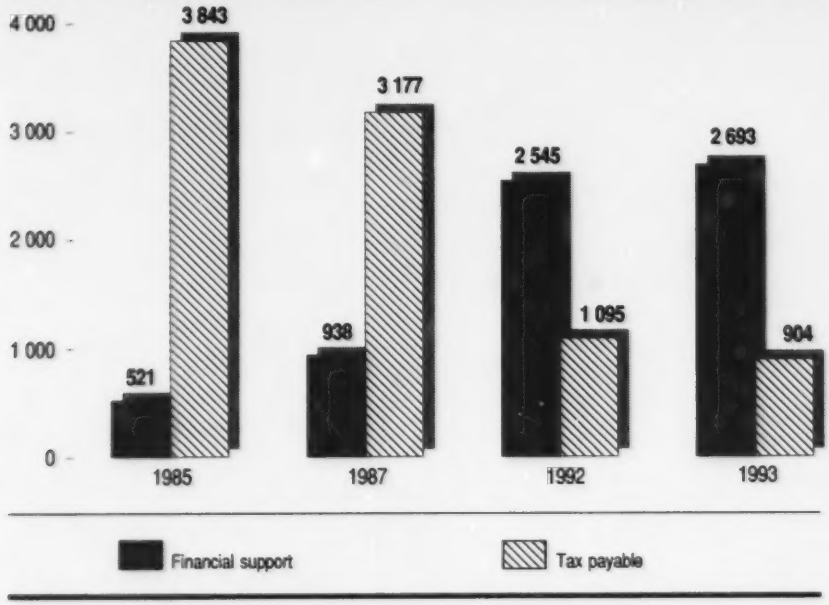
Note 2 : Québec's financial support includes PWA benefits, the reduction in income taxes because of dependent children, family allowances and all the other allowances. The federal government support stems from the reduction in income taxes because of dependent children, family allowances and the refundable child tax credit. In 1993, the new federal child benefit will also be considered part of federal support.

Note 3 : The 1993 structure takes the Consumer Price Index into consideration where applicable.

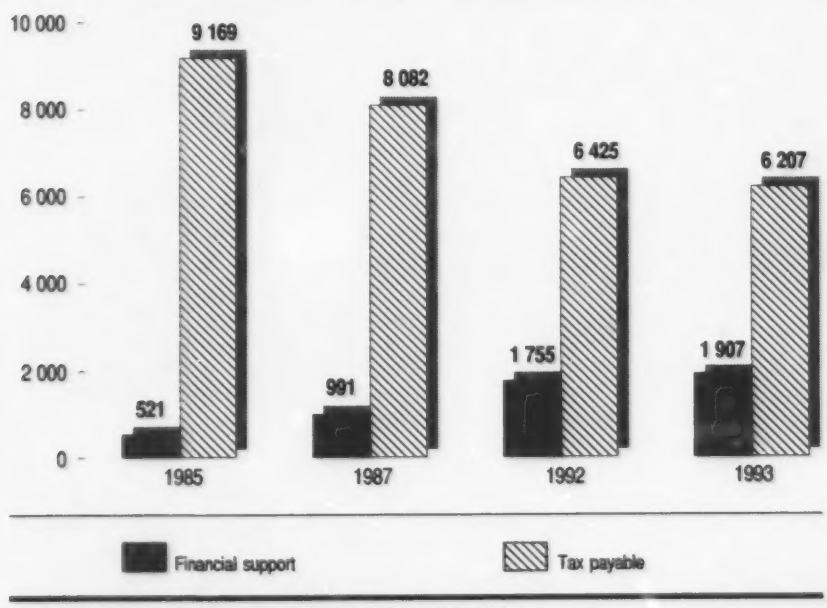
Note 4 : The total may not correspond to the sum of the items because of rounding off of each item.

Improved financial support for children, combined with adequate recognition of their essential needs under the taxation system, have led to a significant improvement in the financial position of families since 1986. A family with two children and income of $30 000 that paid $3 843 in taxes in 1985 saw its tax burden decrease from year to year, from $3 177 in 1987, to $1 095 in 1992, and $904 in 1993. In the case of such a family earning $50 000, the tax saving is also significant. In 1985, the family paid $9 169 in taxes, compared with $6 425 in 1992 and $6 207 in 1993.

TAX PAYABLE AND FINANCIAL SUPPORT[1]
COUPLE WITH TWO CHILDREN AND ONE WORK INCOME OF $30 000
(in dollars)



TAX PAYABLE AND FINANCIAL SUPPORT[1]
COUPLE WITH TWO CHILDREN AND ONE WORK INCOME OF $50 000
(in dollars)



1 Support includes allowances and tax reductions pertaining to children.

The financial support granted for children is progressive in nature. All of the recognized needs of children are covered in families benefiting from assistance programs of last resort. In the case of low-income families, government assistance is established with a view to partially offsetting the drop in transfers that such families experience when they are gainfully employed. The government acknowledges that families, regardless of their income, are not in as good a position to pay taxes as childless households. This principle, which is a cornerstone of the Québec taxation and transfer system, no longer obtains in the federal taxation system, in the wake of the reform that Ottawa will introduce on January 1, 1993.

In the case of a family with one child and one work income, Québec government financial support will total $6 139 in 1993 on income of $12 000. It will subsequently decrease as income increases, from $1 933 on income of $25 000, to $1 358 on income of $40 000, and $651 on income of $60 000 or more. In such a family, federal government financial support will total $1 369 on income of $12 000, $961 on income of $25 000, $517 on income of $40 000, and $17 on income of $60 000. On incomes above the latter amount, the federal government no longer recognizes expenses pertaining to children ; the family will pay the same amount of tax as a childless household.

QUÉBEC AND FEDERAL GOVERNMENT FINANCIAL SUPPORT FOR CHILDREN
1993 TAXATION YEAR
(in dollars)

Work income	12 000	15 000	20 000	25 000	30 000	40 000	50 000	60 000	75 000	100 000
Québec government support										
☐ For one child	6 139	4 885	3 879	1 933	1 744	1 358	958	651	651	651
☐ For two children	7 604	6 212	5 080	4 088	2 693	2 307	1 907	1 510	1 510	1 510
☐ For three children	10 008	8 616	7 484	6 492	5 637	5 251	4 851	4 451	4 364	4 364
Federal government support										
☐ For one child	1 369	1 369	1 369	961	767	517	267	17	0	0
☐ For two children	2 582	2 582	2 582	2 174	1 878	1 378	878	378	0	0
☐ For three children	4 467	4 467	4 467	4 059	3 763	3 263	2 763	2 263	1 513	263
Total support										
☐ For one child	7 508	6 253	5 248	2 894	2 511	1 875	1 225	668	651	651
☐ For two children	10 186	8 794	7 661	6 261	4 571	3 685	2 785	1 887	1 510	1 510
☐ For three children	14 475	13 083	11 951	10 551	9 400	8 514	7 614	6 714	5 877	4 627

Note 1 : For illustration purposes, support is for a couple, one spouse of which has a work income, that incurs no child care expenses. The child in the first example is 7 years of age. In the case of a couple with two children, the children are 2 and 7. The couple with three children has a newborn child, a child 2 years old and a child 7 years old.

Note 2 : Québec's financial support includes PWA benefits, the reduction in income taxes because of dependent children, family allowances and all the other allowances. The federal government support stems from the reduction in income taxes because of dependent children and the new federal child benefit that replaces family allowances, the refundable child tax credit and the non-refundable child tax credit.

Note 3 : The 1993 structure takes the Consumer Price Index into consideration where applicable.

Note 4 : The total may not correspond to the sum of the items because of rounding off of each item.

Impact on certain types of households

The measures related to the taxation and transfer systems as they apply to individuals and families are of greater benefit to households with low and middle incomes and thus preserve the progressivity of the Québec taxation system. The financial position of households is being enhanced mainly through the indexation of the taxation and transfer systems. For example, a single-parent family with one young child and work income of $15 000 will have $883 in additional disposable income, primarily because of indexation of the PWA program and the higher child care expense deduction.

INCREASE IN THE DISPOSABLE INCOME OF CERTAIN HOUSEHOLDS ATTRIBUTABLE TO MEASURES PERTAINING TO THE TAXATION AND TRANSFER SYSTEMS IN 1993
(in dollars)

Work income of households	no income	5 000	7 500	10 000	15 000	20 000	30 000	50 000	75 000
☐ Couple with two children	565	639	639	639	639	570	217	218	73
☐ Single-parent family with one child	127	403	615	801	883	735	219	218	144
☐ Childless couple	208	220	220	220	46	50	45	48	48
☐ Single person under 65 living alone	128	152	152	24	30	30	27	28	28

Note: In the case of couples, only one spouse earns work income.

Impact on taxpayers

As a whole, the measures announced pertaining to families and individuals will augment their disposable income by $345 million in 1993. The increase is attributable by and large to the indexation of the amounts representing recognized essential needs, equivalent to $205 million, and additional support for children, worth $80 million. The measures concerning the recognition of certain social situations will increase the disposable income of individuals and families by $52 million. Other housing assistance measures will boost the disposable income of families by $8 million.

IMPACT OF MEASURES CONCERNING THE TAXATION AND TRANSFER SYSTEMS ON PERSONAL DISPOSABLE INCOME (in millions of dollars)

	Taxation year 1993
2 % indexation of essential needs recognized in 1993	
☐ Taxation system	150
☐ EI and PWA	47
☐ Family allowances and allowance for young children	8
Subtotal : indexation	205
Additional support for children	
☐ Allowance for newborn children	7
☐ Increase in the deduction for child care expenses	3
☐ Elimination of the taxation of federal family allowances integrated into the new federal child benefit	70
Subtotal : additional support for children	80
Recognition of certain social situations	
☐ Adults whose parents live with them	22
☐ Children with a disability, living outside the family home	low cost
☐ Fiscal situation of common-law spouses	30
Subtotal : recognition of certain social situations	52
Miscellaneous measures	
☐ Additional housing assistance	8
☐ Improvements for the handicapped or people with serious illnesses	low cost
Subtotal : miscellaneous measures	8
Total impact	345

Impact on progressivity and competitiveness of the taxation system

Progressivity of the Québec system

Personal income tax has not been increased in Québec since 1985. To the contrary, essential needs covered by personal exemptions have been fully indexed every year since then. Moreover, by adopting full indexation based on the inflation rate, the government has further lightened the tax burden of Quebecers in relation to their counterparts in the other provinces, which have only adopted partial indexation.

Moreover, the restructuring of personal exemptions, including, notably, the introduction of new exemptions for children, which came into effect in 1986, has reduced the income tax families pay and acknowledged the cost of raising a family. Subsequently, the tax reductions announced in the 1987-1988 Budget Speech significantly raised the taxation thresholds of families. Striking tax reductions were granted in 1988 and 1989 in conjunction with the tax reform, which also lowered the marginal taxation rates and converted personal exemptions into non-refundable tax credits.

In the wake of the foregoing reductions and changes adopted in the other provinces, the Québec taxation system is still more progressive than those in neighbouring provinces and is now more competitive than it used to be.

In Québec in 1985, a couple with two children between the ages of 6 and 11 paid less tax than its Ontario counterpart on work income of up to $19 490. In 1992, the Québec taxation system favoured such a couple on income of up to $45 182. The Québec couple pays more tax beyond this threshold, although the discrepancy has been reduced since 1985.

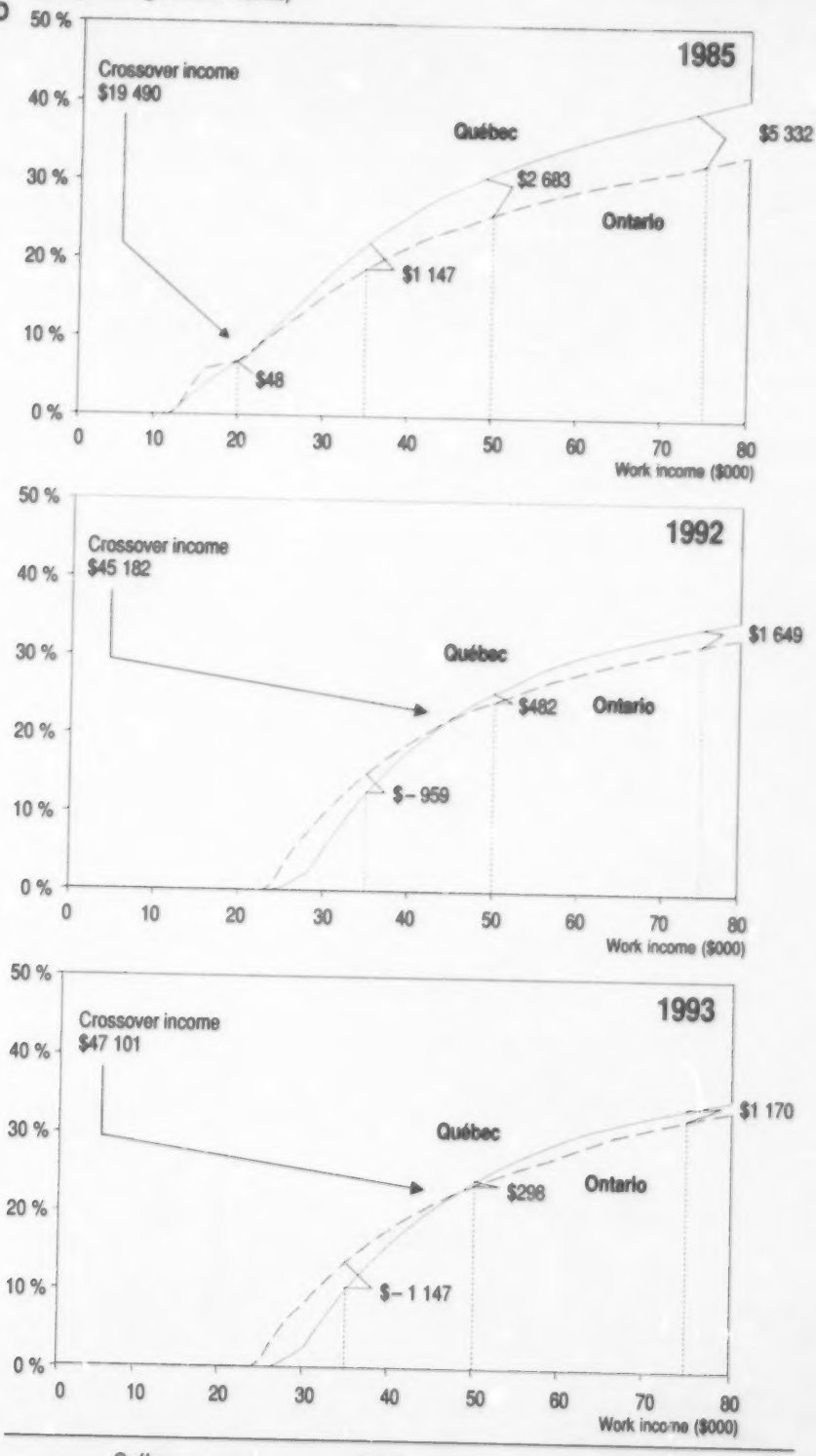
In 1993, the Québec taxation system will remain advantageous for a couple earning up to $47 101 in work income. Beyond this level, a Québec family will continue to pay more tax than its Ontario counterpart, although the additional tax paid declined between 1985 and 1993. On income of $75 000, the additional tax paid by the Québec family decreased from $5 332 in 1985 to $1 649 in 1992 and $1 170 in 1993.

In the case of single persons, the Québec taxation system was advantageous on incomes of up to $11 850 in 1985. In 1993, the figure will be $15 743. Beyond this level, a Québecer who is single will pay more tax than he would in Ontario. However, the additional tax payable generally decreased between 1985 and 1993. On income of $75 000, the discrepancy was reduced from $6 118 in 1985, to $3 059 in 1992, and will fall to $2 661 in 1993.

AVERAGE TAXATION RATE [1]
COMPARISON OF QUÉBEC AND ONTARIO

COUPLE WITH TWO CHILDREN BETWEEN 6 AND 11
(one work income)

(as a percentage of work income)

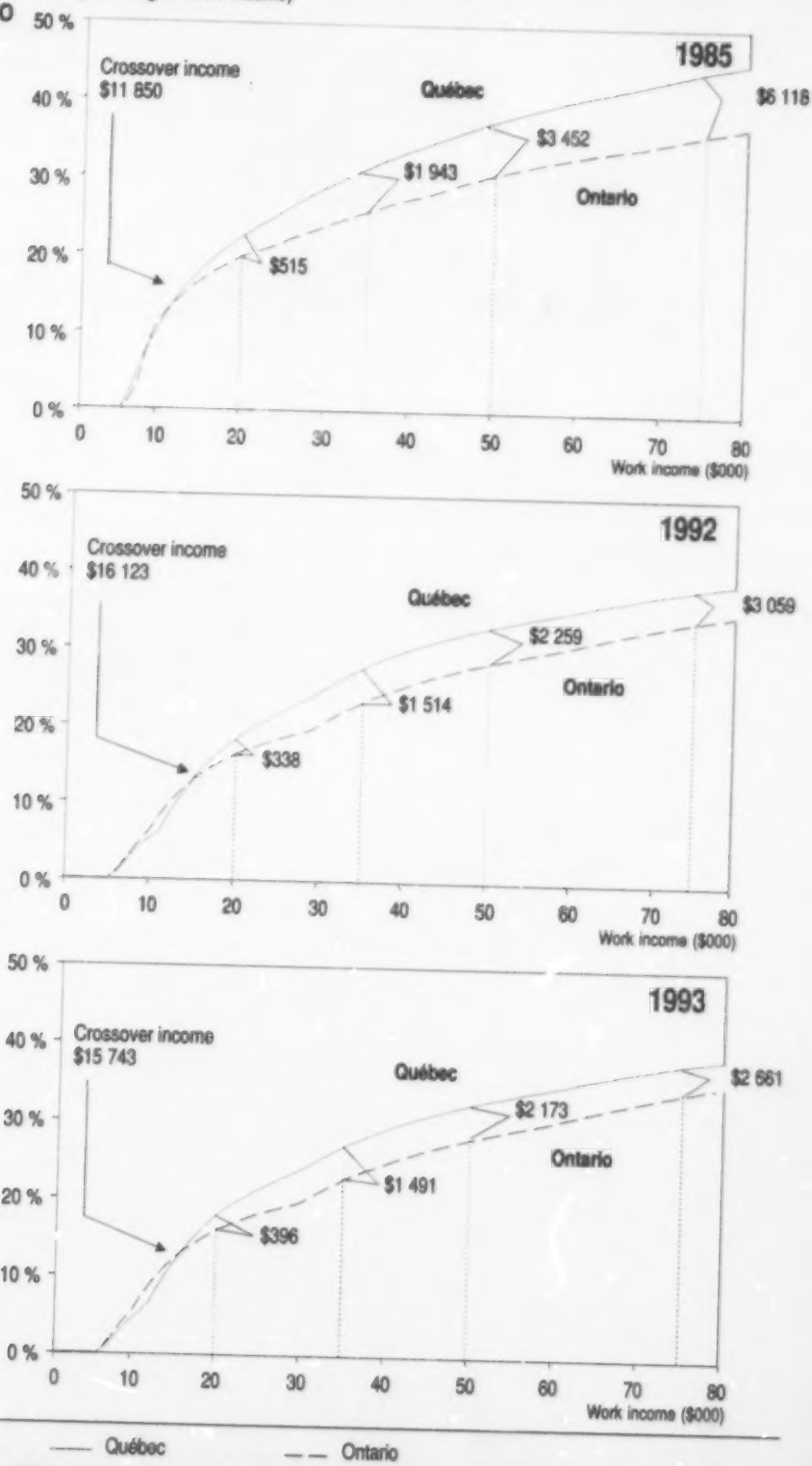


1 Taxes : Federal and provincial income taxes less allowances and tax credits plus contributions to health programs (OHIP).

AVERAGE TAXATION RATE[1]
COMPARISON OF QUÉBEC AND ONTARIO

(as a percentage of work income)

SINGLE PERSON UNDER 65
LIVING ALONE



1 Taxes : Federal and provincial income taxes less allowances and tax credits plus contributions to health programs (OHIP).

Maximum marginal taxation rates

Highly specialized individuals are also highly mobile and sensitive to differences in taxation systems.

The maximum marginal taxation rate in Québec was reduced from 32 % in 1985 to 24 %, starting in 1989. Bearing in mind the recent increase in the Ontario maximum marginal rate, the discrepancy between the federal, Québec and Ontario maximum marginal rates will be only 1.2 percentage points in 1992. In 1993, this figure will fall to 0.1 percentage point.

However, though tax structures differ at the federal and state levels in the United States, compared to those applicable in Québec and federally in Canada, making comparisons more difficult, the discrepancies between the rates applicable in Québec and those prevailing in neighbouring American states are still significant. The reductions in maximum marginal taxation rates introduced in the U.S. in 1987 were much more striking than those implemented in Québec and Ontario. The U.S. federal maximum marginal rate decreased from 50 % in 1986 to 28 % in 1987, a drop of 22 percentage points. In Canada, the federal rate fell from 34 % in 1987 to 29 % in 1988, a decrease of five percentage points. Overall, the discrepancy between Canada and the United States, which was lowered from 8.9 percentage points in 1985 to 6.3 percentage points in 1986, has risen to 15.9 percentage points, on average, in 1992.

MAXIMUM MARGINAL TAXATION RATES ON THE HIGHEST INCOMES COMPARISON BETWEEN CANADA AND THE UNITED STATES (as a percentage)

	Maximum marginal rate				Discrepancy with Québec[1]			
	1985	1986	1992	1993	1985	1986	1992	1993
Canada								
☐ Québec	62.1	59.5	51.0	50.5	n.a.	n.a.	n.a.	n.a.
☐ Ontario	52.0	55.4	49.8	50.5	– 10.1	– 4.1	– 1.2	– 0.1
United States[2]								
☐ Connecticut	50.0	50.0	34.1		– 12.1	– 9.5	– 16.9	
☐ Massachusetts	50.0	50.0	35.1		– 12.1	– 9.5	– 15.9	
☐ Maine	55.0	55.0	37.8		– 7.1	– 4.5	– 13.1	
☐ New Hampshire	50.0	50.0	31.0		– 12.1	– 9.5	– 20.0	
☐ New Jersey	51.8	51.8	35.8		– 10.4	– 7.8	– 15.1	
☐ New York	56.8	56.8	36.2		– 5.4	– 2.8	– 14.7	
☐ Pennsylvania	51.2	51.1	32.8		– 10.9	– 8.4	– 18.2	
☐ Rhode Island	55.8	55.6	36.9		– 6.3	– 3.9	– 14.1	
☐ Vermont	56.6	56.6	38.3		– 5.5	– 2.9	– 12.7	
Weighted average[3]	**53.2**	**53.2**	**35.1**		**– 8.9**	**– 6.3**	**– 15.9**	

1 The discrepancy with Québec may not correspond to the difference between the items because of rounding.

2 State and municipal taxes are deductible for the purpose of calculating federal tax. Some cities levy an income tax that is not taken into account when the rates are calculated. For example, New York City levies a 4.46 % income tax.

3 The weighted average reflects the average obtained using the maximum marginal rate and the 1990 population figures in each of the states examined.

Source : Price Waterhouse and ministère des Finances du Québec. The rates for the United States are those in effect as of April 28, 1992.

1.6 Application

Allowance for newborn children in the case of the third child and subsequent children

Under the current rules, quarterly payments of $375 are payable in the first month of each quarter and are established beginning in the month following the birth of a third child and subsequent children, provided the child is eligible in the month preceding the payment. The payments cease in the quarter following that in which the child reaches the age of 5.

The increase in the allowance from $7 500 to $8 000 raises the quarterly payments from $375 to $400. This measure applies in quarters beginning after April 1992.

A transitional rule will be adopted with respect to children reaching the age of 5 in May or June 1992, to ensure that they are entitled to the increased $400 quarterly payment.

PWA program

The family threshold under the PWA program and the work income excluded are established using scales of needs and work income excluded under the EI program, which reflect those attributable to a family in which the adults are deemed to be available. The following table indicates the family thresholds in 1993 under the PWA program, and the work income excluded.

FAMILY THRESHOLDS AND WORK INCOMES EXCLUDED FOR THE PURPOSES OF THE PWA PROGRAM IN 1993 (in dollars)

	Family threshold	Work income excluded[1]
Couple with children		
— one dependent child	12 066	708
— more than one dependent child	13 122	708
Single-parent family		
☐ Not sharing a dwelling unit		
— one dependent child	9 183	1 128
— more than one dependent child	10 392	1 128
☐ Sharing a dwelling unit		
— one dependent child	7 983	1 128
— more than one dependent child	9 192	1 128

1 The level of excluded work income is that provided for under the EI program when the household's adults are deemed available.

Adults housing direct ascendants

An individual with respect to whom no tax credit is claimed by an individual other than his spouse, and who is residing in Québec as of December 31 or on the date of his death may take advantage of a refundable $440 tax credit in the year with respect to an eligible parent or other direct ascendant normally living with him, during a period of at least 365 consecutive days beginning in the year or during the preceding year. Moreover, this period must include a period of at least 183 days in the taxation year, in a self-contained domestic establishment which the taxpayer or his spouse owns, rents or sublets during the period in question.

For the purpose of this tax credit, the eligible ascendant is the father, mother, grandfather, grandmother or other direct ascendant of the individual or his spouse, who has reached the age of 70 prior to the end of the year or who, were it not for his or her death, would have turned 70 prior to the end of the year. Moreover, provisions will be adopted to ensure that the same eligible ascendant does not entitle the taxpayer to a tax credit exceeding $440. In order to benefit from this tax credit, the individual must attach to his tax return proof that he is maintaining a dwelling unit. In addition, the taxpayer must attest on the prescribed form that he normally lived in this dwelling with an eligible parent, grandparent or other direct ascendant during the period in question.

More flexible eligibility criteria will prevail when an individual normally lives with a direct ascendant who, because of his health, requires special care. To this end, an eligible ascendant will be defined as the father, mother, grandfather, grandmother or other direct ascendant of the individual or his spouse, who is 60 or over prior to the end of the year for which the credit is claimed or who, were it not for his or her death, would have turned 60 prior to the end of the year and was suffering from a serious, prolonged physical or mental disability as contemplated in taxation legislation. Subject to the other conditions that apply, bearing in mind the necessary adaptations, such as the $440 maximum per eligible parent, grandparent or other direct ascendant, a taxpayer may take advantage of the tax credit for such an eligible ascendant who normally lived with him for at least 90 consecutive days during the year, provided that the ascendant normally lived with one or more of his descendants during a period of at least 365 days beginning in the year or in the preceding year and including a period of at least 183 days in the taxation year.

An adult housing an eligible direct ascendant of his spouse can continue to benefit from this measure after the spouse's death.

This measure will apply beginning in the 1992 taxation year.

2. Consumption tax reform

The second phase of the Québec consumption tax reform provides for the extension of the sales tax to supplies of services and immovables as of July 1, 1992 and a mechanism for input tax refunds (ITR) for businesses. In order to ensure that the introduction of this second phase is in step with the economic recovery, today's Budget Speech provides for changes to the terms and conditions of application of the Québec sales tax (QST) system and certain related measures.

- The QST will be applicable to supplies of services and immovables as planned, but at a tax rate reduced from 8 % to 4 %.

- Businesses will be entitled to refunds of taxes on current inputs (ITR) and on capital assets, but not of tax currently levied on certain inputs, which will still not be reimbursable. A surtax of two percentage points will also apply to active business income as of July 1, 1992.

- A certain number of adjustments resulting from these changes will also be necessary. These adjustments are described in the following pages, as are the specific terms and conditions for applying the QST system as of July 1, 1992.

The changes announced are designed to reach the economic and fiscal objectives the government is targeting in the consumption tax reform. Essentially, the major advantages for the Québec economy have been maintained. The implementation of the consumption tax reform and the measures announced in this Budget Speech will serve to bolster the confidence of Québec consumers in the economic recovery, reduce the production costs of businesses, and enhance the efficiency of the tax system as a whole. In the long run, the Québec economy will perform better as a result of the positive and lasting effects of the reform on the competitiveness of Québec products and on employment.

2.1 Introduction of a reduced taxation rate on services and immovables

Reduction of rate from 8 % to 4 % on services and immovables

The sales tax rate to be applied to services and immovables will be cut in half as at July 1, 1992, from 8 % to 4 %. As a result of this decision, the QST system to apply at that time will consist of two tax rates, the regular 8 % rate applicable to supplies of corporeal movable property generally taxable at present, and a reduced 4 % rate applicable to the supplies of services and immovables contemplated by the broadening of the tax base. The tax base is described in detail in another section of this appendix. Since the QST rate will be significantly reduced, the government must see that provisions are introduced to ensure that its financial situation is maintained.

2.2 Measures compensating for the reduction in the QST rate on services and immovables

The measures designed to compensate for the reduction in the QST rate on supplies of services and immovables affect both the input tax refund and the tax on active business income.

Non-reimbursement of the sales tax on certain inputs

The retail sales tax, now levied on certain business inputs and on the purchases of selected public service bodies, charities and admissible non-profit organizations, will therefore remain non-reimbursable. These are amounts of tax paid on electricity, gas, steam and other combustibles. These energy sources, which are currently exempt from tax when used directly in production activities, will generally remain so as a result of an input tax refund. Similarly, the amounts of tax levied on telephone services and telecommunications, as well as on meals, entertainment, fuel and vehicles used on public roads, will not be reimbursable. Despite these restrictions, the government will reimburse over 80 % of the amounts of the tax levied on inputs that it was to reimburse under the reform, thus maintaining the essence of the economic objectives of the consumption tax reform.

Surtax on active business income

The coming into force of the full consumption tax reform will confer major advantages on Québec businesses, despite the restrictions described above. For these reasons, a surtax of two percentage points will be applied to active business income as of July 1, 1992, without fear of compromising the competitiveness of Québec firms. The tax on non-active business income remains unchanged.

RATES APPLICABLE TO CORPORATE INCOME TAX
(as a percentage)

	Before July 1, 1992	As as July 1, 1992
☐ Active business income		
• eligible for SBD[1]	3.75	3.75
• other income	6.90	6.90
• surtax on active business income[2]	—	2.00
☐ Non-active business income	16.25	16.25

1 Small business deduction.

2 As a percentage of the corresponding portion of taxable income.

The surtax will apply to taxation years ending after June 30, 1992. For a taxation year straddling June 30, 1992, the surtax will apply in proportion to the number of days of the taxation year following June 30, 1992. Tax instalments for active business income will therefore be increased to take into account the surtax, beginning with the July 1992 instalment.

Lastly, correlative adjustments will be made for the purposes of the income tax credit for refundable losses to take this surtax into account.

2.3 Adjustments resulting from changes to the QST system

Refundable tax credit for low-income households

The refundable sales tax credit introduced in 1991 to prevent the erosion of the purchasing power of low-income households will be raised in 1992 and 1993. To take into account the postponement to July 1, 1992 of the application of the full consumption tax reform and the reduction to 4 % of the QST rate for supplies of services and immovables, which will reduce the tax burden of Québec households, an adjustment must be made to the refundable tax credit announced in the 1991-1992 Budget Speech. Today's Budget Speech provides for an increase of this tax credit in 1992 in order to compensate for the impact of the second phase of the reform on the coverage of essential needs, and the 2 % indexation in 1993 of the basic credit amounts. These changes to the amounts of the tax credit will also apply to compensation paid to recipients of the EI and Financial Support programs, whose benefits will be adjusted accordingly on July 1, 1992.

REFUNDABLE SALES TAX CREDIT
(in dollars)

	1991 taxation year	1992 taxation year	1993 taxation year
Maximum amount			
☐ adult	90	96	104
☐ person living alone	50	51	53
☐ dependent child	25	28	31
☐ first child of a single-parent family	15	16	18
Maximum value of tax credit			
☐ couple with two children	230	248	270
☐ single person living alone	140	147	157
☐ single-parent family with one child	180	191	206

Maintenance of the progressive character of the tax system

The refundable sales tax credit ensures that the application of the second phase of the consumption tax reform maintains the progressive character of the tax system. In fact, the tax system fully compensates low-income households for the effects of the reform on their disposable income.

Housing

Access to residential property was given special attention when the consumption tax reform was drawn up. A reimbursement equal to 36 % of the tax paid upon acquiring residences worth up to $150 000 and a partial reimbursement of taxes paid on residences worth between $150 000 and $175 000 were intended to limit the impact of the QST on the price of new houses.

Reimbursement for housing

In view of the reduction from 8 % to 4 % in the QST rate applicable to supplies of immovables, the reimbursements provided for with respect to the tax paid upon the purchase of a new residence worth less than $175 000 are eliminated. At 4 %, the impact of the QST on the price of new houses is relatively weak, so reimbursements are no longer necessary.

The average price of a house in Québec actually includes at present an amount of tax evaluated at an average of 3.4 %, resulting from the taxation of building materials, tools and some of the inputs used to produce those tools and materials. The impact of the reimbursement of the tax on these goods and the application of a 4 % QST on sales of new residences will be about 0.5 % of the purchase price, or one-third the impact of 1.6 % provided for before these measures. This impact on the average price of new houses by region of Québec is shown in the following table. Just as favourable a result is obtained with respect to home renovation.

IMPACT OF PHASE II OF THE CONSUMPTION TAX REFORM ON THE AVERAGE PRICE OF NEW HOUSES, BY REGION (In dollars)

Region	Average price[1]	Present provincial tax[2]	4 % QST	Impact on price		Change in $ in monthly mortgage payments[3]	
				In $	In %	Current monthly payments	Change in monthly payments
Chicoutimi-Jonquière	80 664	2 931	3 109	178	0.22	674	1
Drummondville	85 961	3 123	3 314	191	0.22	718	2
Granby	84 110	3 056	3 242	186	0.22	703	2
Hull	107 346	3 656	4 148	492	0.46	897	4
Montréal	127 382	4 049	4 933	884	0.69	1 064	7
Québec	120 127	4 091	4 641	550	0.46	1 004	5
Saint-Jean-sur-Richelieu	107 394	3 658	4 149	491	0.46	897	4
Shawinigan	78 547	2 854	3 028	174	0.22	656	1
Sherbrooke	88 480	3 214	3 411	197	0.22	739	2
Trois-Rivières	82 629	3 002	3 185	183	0.22	690	2
Average for these regions	**117 462**	**3 892**	**4 543**	**651**	**0.55**	**981**	**5**

1 Source : Canada Mortgage and Housing Corporation for the period from July 1991 to December 1991.
2 Tax of 8 % now included in the price of homes.
3 With a 10 % downpayment and a mortgage amortized over 25 years, bearing annual interest at 10.5 %.

Access to residential property

In this context, the effects of the consumption tax reform on the cost and accessibility of residential property will be negligible. The average monthly payments for a $117 500 house, for example, should increase by only $5, with a 10 % downpayment, and a mortgage amortized over 25 years, bearing 10.5 % annual interest.

Selected public service bodies

Municipalities, hospital authorities and school authorities, public colleges and universities are currently subject to the sales tax. Under the QST system, these selected public service bodies will benefit from a partial reimbursement of the taxes paid, which will keep their tax burden from increasing when account is taken of the total retail sales taxes which were paid directly by these bodies before the reform, or indirectly via the taxes applicable to purchases by suppliers and passed on in their prices.

Following the initial reform project, these bodies were consulted on the partial reimbursement rates which would serve to reach this objective. The results of these discussions and the updated version of the data used revealed the need for an upward revision of the rates initially provided for. The partial reimbursement rates which will apply to selected public service bodies as of July 1, 1992 are given in the following table.

PARTIAL REIMBURSEMENT RATES FOR SELECTED PUBLIC SERVICE BODIES AT JULY 1, 1992
(as a percentage of QST paid)

Bodies	Before budget	After budget
Municipalities	37	40
Hospital authorities	18	19
School authorities, public colleges and universities	23	30

These rates will generally apply to all tax amounts paid by these bodies as of July 1, 1992, except those paid for supplies made within the framework of a commercial activity, which give entitlement to ITRs, and those applicable to a good or service which cannot give entitlement to a partial reimbursement, as announced above.

Impact of the changes

The changes in the second phase of the consumption tax reform introduced by the Budget Speech affect the tax burden of selected public service bodies. The reduction in the fiscal burden resulting from the decrease in the QST rate on supplies of services and immovables will exceed the increase in the tax burden of these bodies resulting from the non-reimbursement of the tax paid on certain inputs. For municipalities, these measures represent a decrease in the tax burden of $35 million in 1993.

For the health and education networks, they represent about $20 million in 1992-1993. The estimates for the departments concerned will be revised to maintain their budgetary situation.

Financial institutions

The QST system provides for the zero-rating of financial services. Thus, unlike the case under the GST system, financial institutions will be able to claim an input tax refund under the QST system. In return, the government will apply a compensating revenue measure as of July 1, 1992, to maintain the tax burden of financial institutions.

Changes to the compensating revenue measure

Since the tax paid on certain inputs is not reimbursed and the economic parameters on which this rule is based have been updated, the compensating revenue measure for financial institutions already announced must be changed in order to maintain the tax burden of the financial sector. The compensating revenue measure applicable as of July 1, 1992 will thus be adjusted by reducing the tax rate from 0.45 % of paid-up capital to 0.35 % for banks, loan corporations, trust corporations and corporations trading in securities, and by reducing the tax rate from 0.25 % of the price of premiums to 0.15 % for insurance companies. The rate of tax on wages paid by these financial institutions will remain 2 %. As for the other listed financial institutions, the rate of 4 % of wages paid will be decreased to 2.5 % in the case of credit and savings unions, federations and confederations, and to 1.0 % in the case of the other financial institutions contemplated by the measure.

Elimination of the duties on amusements

Some municipalities levy duties of 10 % on amusements. These duties will be eliminated on July 1, 1992 following the introduction of the second phase of the consumption tax reform. Because of the withdrawal of these duties, and given the application of a reduced 4 % QST rate on amusements, the effective tax rates on amusements, resulting from the combined effects of the direct taxation rates and the indirect taxes included in the price of these activities will be reduced from 13 % in 1990 and 18.5 % in 1991 to less than 12 % in 1992, as shown in the following table.

EFFECTIVE AMUSEMENT TAX RATES
(as a percentage)

	1990	1991	1992
Direct taxes			
Duties on amusements	10.00	10.00	—
Québec sales tax (QST)	—	—	4.28
Federal goods and services tax (GST)	—	7.00	7.00
Subtotal	10.00	17.00	11.28
Indirect taxes[1]	3.00	1.50	0.50
Total	**13.00**	**18.50**	**11.78**

1 Indirect taxes included in the prices resulting from the combined effects of the federal and Québec sales taxes.

Assistance for municipalities to compensate for the elimination of the duties on amusements

To compensate for the shortfall in municipal revenue resulting from the elimination of the duties on amusements, assistance amounting to $6.5 million in 1992 and $13 million each year from 1993 to 1996 will be granted by the government, for a total of $58.5 million. This compensation will be added annually to the partial QST reimbursements given to the municipalities by the ministère du Revenu. The distribution of this amount among the municipalities will be determined by regulation on the recommendation of the Minister of Municipal Affairs.

2.4 Impact on economic growth and employment

The beneficial effects for Québec firms of the second phase of the consumption tax reform will be evident in a number of ways.

Reimbursements of the business input tax

By reducing production costs for businesses, the reimbursement of the tax on current inputs and capital assets will ensure that Québec products are more competitive on both domestic and international markets.

Reduction of production costs

As a result of the application of the second phase of the consumption tax reform, reimbursements of the tax on current inputs and capital assets will be granted, giving rise to a direct reduction in the production costs of Québec businesses as of 1992. In addition, these reimbursements will result in a major reduction in cascading taxation. The reimbursement of the tax on purchases by businesses will cut production costs and so reduce the price that firms pay to acquire the products used to produce other goods. This benefit is in addition to the direct impact of the input tax refund.

These cutbacks in the operating and manufacturing costs of businesses, which will be reflected in reductions in the price of products made in Québec, will promote stronger economic growth and job creation, particularly through an increase in the exports on which much of Québec's production depends.

Support for sectors subject to international competition, and increased investment

Once all the effects of the reform are felt, the sectors most subject to international competition, particularly the manufacturing sector, and the sectors with a strong spread effect on the rest of the economy, such as the construction sector, will benefit especially from this reform. In fact, the input tax refund will both reduce production costs in the construction industry and stimulate non-residential investment. The reform should also provide major encouragement for Québec firms to purchase capital goods, which will ultimately lead to increases in productivity.

Increase in production of 0.8 % and creation of about 17 000 jobs

These beneficial effects will ultimately result in a lasting increase of 0.8 % in domestic production, which will in turn lead to the creation of about 17 000 permanent jobs.

2.5 Financial impact of the changes in the consumption tax reform

The measures announced in today's Budget Speech will have an impact on the financial framework of the Québec government, with respect to both revenue and budgetary expenditure.

Revenue from several sources will be affected. Revenue from consumption taxes will be reduced, owing to the decrease from 8 % to 4 % of the QST rate applicable to supplies of services and immovables. The changes related to these measures will also affect corporate income tax as well as employer contributions to the Health Services Fund and the tax on capital, given the need, in the latter two cases, to adjust the compensating revenue measure for financial institutions. Personal income tax will also be affected by the changes to the refundable sales tax credit. In all, Québec government revenue will fall by $126 million in fiscal 1992-1993.

In addition, the revision of the estimates for the health and education networks, which must be carried out following the adoption of these measures, will take into account the combined effects of the drop in the QST rate on supplies of services and immovables and the non-payment of a partial reimbursement of the tax paid on certain goods and services. Lastly, the compensations paid to income security recipients will be adjusted along the same lines as the refundable sales tax credit. This impact will reduce budgetary expenditure by $29 million in 1992-1993.

FINANCIAL IMPACT OF MEASURES RELATING TO THE CONSUMPTION TAX SYSTEM
(in millions of $)

	1992-1993	1993-1994	1994-1995
Impact on budgetary revenue			
☐ Changes in the QST system :			
— Reduction of QST rate from 8 % to 4 %	– 740	– 1 035	– 1 112
— Non-reimbursement of tax on certain inputs	422	650	689
— Other measures	46	80	86
— Subtotal: impact on QST	**– 272**	**– 305**	**– 337**
☐ Changes to the compensating revenue mesure for financial institutions	– 23	– 37	– 39
☐ Changes to the refundable QST tax credit	—	22	46
☐ Surtax on active business income	175	296	336
☐ Compensation to municipalities for the elimination of the duties on amusements	– 6	– 13	– 13
Total impact on budgetary revenue	**– 126**	**– 37**	**– 7**
Impact on budgetary expenditure			
☐ Changes to estimates for health and education networks	20	32	32
☐ Compensation for beneficiaries of EI and Financial Support programs	9	12	13
Total impact on budgetary expenditure	**29**	**44**	**45**
Total impact on financial framework of the Québec government	**– 97**	**7**	**38**

2.6 Description of the 8 % and 4 % tax base

The implementation of the consumption tax reform in Québec will be completed on July 1, 1992. Although the general approach of the second phase of the reform remains substantially the same, certain changes will be made in the proposed application, particularly with respect to the tax base. A reduced 4 % taxation rate will apply generally to supplies that will be subject to the QST as of July 1, 1992, so that supplies of immovables, services and incorporeal movable property will be taxed at this reduced rate, while supplies of corporeal movable property and certain supplies of services that are already taxable under the consumption tax system will be subject to the regular 8 % tax rate. In addition, the tax treatment of used vehicles now in force will be preserved in the new QST system.

Determination of the tax base at the regular rate

Corporeal movable property

For the purposes of applying the full consumption tax reform as of July 1, 1992, taxable supplies, other than zero-rated supplies, of corporeal movable property made in Québec and such property brought into Québec will generally be subject to an 8 % tax.

Road vehicles

All sales of vehicles are subject to the current Québec retail sales tax. In addition, the present system provides for certain abatements in determining the amount of the tax payable when someone sells a vehicle and accepts a used vehicle from the buyer in exchange. Under this tax treatment, the amount of the tax payable on the purchase of a vehicle can be reduced, depending on the credit obtained for the used vehicle traded in. These rules applicable to vehicles are comparable to those in force in the other Canadian provinces.

The QST system applicable as of July 1, 1992 generally provides for an 8 % tax on vehicles brought into Québec and taxable supplies of vehicles, other than zero-rated supplies. Moreover, under the QST system, the value of a used vehicle traded in upon the purchase of a new one does not reduce the purchase price of the new vehicle for the purposes of calculating the tax payable.

— Tax base

Changes will be made to the QST system so that in addition to taxable supplies, all supplies as defined for the purposes of the QST, with the exception of zero-rated supplies, non-taxable supplies and supplies made by way of gift, of road vehicles within the meaning of the Highway Safety Code, which must be registered, will be subject to an 8 % tax as of July 1, 1992. The concept of and provisions regarding taxable supplies of road vehicles, that is, those generally made in the course of a commercial activity, and non-taxable supplies of such vehicles, that is, generally the supplies of movable property acquired in order to make new supplies of such property, will be maintained as proposed in the QST system.

For the purpose of applying these changes, a road vehicle is a motor vehicle that can be driven on a highway other than a vehicle that runs only on rails or an electrically-propelled wheelchair ; a trailer, a semi-trailer or a detachable axle.

Generally speaking, agricultural machinery owned by farmers, farm tractors, road vehicles used inside buildings, motorized lawnmowers, garden tractors, golf carts and motorized toy vehicles capable of transporting one person need not be registered. These vehicles cannot be driven on public roads.

The tax payable on supplies of road vehicles will be based on the value of the consideration for the supply and will be applicable at the time the supply is made. As is now the case, the value of the consideration subject to the tax can be set by the Minister of Revenue when the amount of the supply is lower than its fair market value. Tax collection will be controlled when the road vehicle is registered.

— Trade-ins

The QST system will also be changed so that, when a road vehicle is acquired, the value of the consideration of the supply for the purposes of calculating the tax will be reduced by the amount of the credit given for the road vehicle traded in in partial payment of the supply, as is now the case under the retail sales tax system. The trade-in must be a used vehicle and be the property of the person trading it in. The person who makes the taxable supply must be a registrant. This rule will also apply to acquisitions outside Québec according to conditions similar to those currently applicable.

Telephone and telecommunications services

At present, telecommunications, that is, telecommunications sent or received in Québec and the rental of a telecommunications service, are taxable at the 8 % rate. Telephone service is considered to be movable property and is also taxable at the 8 % rate.

As of July 1, 1992, telecommunications and telephone service will continue to be taxed at the regular rate.

However, installation services for a telecommunications or telephone service that are not currently taxable will be taxable at the 4 % rate.

Determination of the tax base at the reduced rate

At present, the sale of a service, immovable or incorporeal movable property is not generally subject to the retail sales tax.

As of July 1, 1992, for the purposes of the application of the QST system, the taxable supply, other than a zero-rated supply, of a service made in Québec or made outside Québec for use in Québec, except the taxable supply of telecommunications or a telephone service, will generally be subject to the 4 % tax rate.

Similarly, the taxable supply, other than the zero-rated supply, of immovables made in Québec or of incorporeal movable property made in Québec or made outside Québec for use in Québec will generally be subject to the 4 % tax rate.

On the other hand, since a reduced tax rate engenders a situation similar to that observed under the current retail sales tax system, and in order to ensure the integrity of the tax base at the regular tax rate, the rules applicable under the current system will generally continue to apply with respect to transactions involving both supplies taxable at the regular tax rate and supplies taxable at the reduced tax rate.

The ministère du Revenu will provide further details on this point.

2.7 Goods and services that do not give entitlement to a tax reimbursement

In spite of the introduction of the input tax refund mechanism for businesses on July 1, 1992, certain specified goods and services will not give entitlement to this reimbursement. The treatment will be the same for the tax paid by a selected public service body, charity or admissible non-profit organization. These organizations will not be able to obtain a partial reimbursement of the tax paid on acquiring such specified goods and services or bringing them into Québec.

Specified goods and services that will not give entitlement to an input tax refund or partial reimbursement for these organizations consist of road vehicles, telecommunications and telephone services, meals and entertainment, electricity, gas, steam, combustibles and fuels. Although these goods and services will not give entitlement to an ITR or partial reimbursement, all the rules applicable to their supply will continue to apply. The rules applicable to taxable, non-taxable and zero-rated supplies of such goods and services will be maintained and businesses making such supplies will be able to claim ITRs on such goods or services.

For simplification purposes, special provisions will be introduced to enable businesses to distinguish between goods and services that do not entitle them to an ITR and those entitling them to a partial reimbursement, particularly in the case of the supply of telecommunications and telephone services.

Road vehicles

The tax paid on acquiring or bringing into Québec a road vehicle, as defined in the Highway Safety Code and which must be registered, will not be reimbursed unless the road vehicle is registered for exclusive use on a private road or land and is not designed for use on public roads, or when the registration certificate stipulates such use. Although ITRs and partial reimbursements are only limited to road vehicles used solely on private roads and land, the tax paid for farm tractors and farm machinery used exclusively on a farm or in a maple sugar bush by a farmer or maple sugar producer will give entitlement to an ITR. In addition, road vehicles in a dealer's inventory on July 1, 1992 will not entitle the dealer to a reimbursement of the tax on inventories.

The maintenance of reimbursements for road vehicles that need not be registered or are exclusively used on private roads or land means the exemption currently applicable under the Québec retail sales tax system for rolling stock used directly in production that benefits manufacturing and processing businesses can be maintained and broadened.

In addition, because ITRs and partial reimbursements for goods and services relating to a road vehicle will be maintained, and to prevent the supply of such vehicles being divided in order to obtain a reimbursement, a special provision will be introduced. All goods and services relating to a road vehicle that do not give entitlement to a reimbursement will also not give entitlement to a reimbursement when they are acquired or brought into Québec during the 12 months following the time the vehicle is acquired or brought into Québec, except in the case of spare parts and service supplied to maintain or repair the vehicle.

Special rules

— Interprovincial and international trucking firms

Given that, generally, road vehicles will not give entitlement to an ITR, the current rules under the QST system for bringing a road vehicle into Québec should be specified. Even though a road vehicle is brought into Québec for exclusive use in the commercial activities of a business, the person who brings it into Québec will have to pay the tax immediately after bringing it in, on the vehicle's value if it does not give entitlement to an ITR. However, interprovincial and international trucking firms are currently governed by special rules that allow them to acquire or bring into Québec a vehicle exempt from the applicable retail sales tax and to calculate the tax payable in proportion to mileage accumulated in Québec. These carriers will continue to be governed by these special rules which will be adapted to take the provisions relating to ITRs applicable to repair and maintenance costs into account.

Similar rules apply to persons outside Québec who bring road vehicles into Québec temporarily for use in Québec in industrial or commercial operations. These rules will be maintained and will enable these persons to remit the tax calculated on the basis of 1/36th of the acquisition price of the road vehicle per month of presence in Québec.

— Authorized dealers and manufacturers of road vehicles

According to the rules currently applicable in the Québec retail sales tax system, manufacturers and authorized dealers of motor vehicles that use for the purposes of their business or make available to another person free of charge a motor vehicle from their inventory can pay, for each month during which such vehicles are used for such purposes, the tax generally calculated on 2.5 % of the price of the vehicle.

These special rules will be maintained in the QST system for road vehicles that do not give entitlement to an ITR and the tax must be paid at the same time as the authorized dealers and manufacturers must file their monthly QST return.

— Change of use

Special rules will be introduced to ensure payment of the sales tax when a road vehicle, which give entitlement to an ITR or partial reimbursement, begins to be used on public roads.

— Other changes

The QST system applicable as of July 1, 1992 contains various special provisions concerning the treatment of motor vehicles. They include notably the treatment of an allowance paid to an employee or member of a partnership for use in Québec of a vehicle used as part of such person's activity, the ITR limit on a passenger vehicle arising from the restriction on the eligible capital cost for income tax purposes, the reimbursement of the tax paid by an employee or member of a partnership for which he deducts an amount in calculating his income for income tax purposes and, concerning the supply of a rental passenger vehicle, the restriction on the amount of ITR determined by considering the limit on the consideration of the supply that would be deductible in calculating his income for the year for income tax purposes.

All these provisions will be amended to take into account road vehicles that do not give entitlement to ITRs and partial reimbursements.

Telecommunications and telephone services

The tax paid when telecommunications and telephone services are acquired will not be subject to an ITR or partial reimbursement with the exception of telecommunications and telephone services used by a convention organizer as part of the organization of a convention.

In a manner similar to what is stipulated in the GST system, the organizer of a convention, whether or not a resident of Québec, can obtain tax reimbursements for telecommunications and telephone services, whether the convention registration fees are taxable or not.

Meal and entertainment expenses

In general, up to 80 % of a reasonable amount paid or payable for food, beverages or entertainment with a view to earning income from a business, property or, under certain circumstances, from an office or employment is normally deductible in calculating the taxpayer's income, subject to certain restrictions and exceptions stipulated in the Taxation Act.

The QST system applicable as of July 1, 1992 provides that when the amount relating to food, beverages and entertainment that is deductible in calculating a person's income is limited to 80 %, the reimbursement of the tax paid on the supply of these goods or on an allowance relating to such supply is also limited to 80 % of the total of the amounts each of which represents an eligible reimbursement for such expenses. In fact, 20 % of the total of the amounts each of which represents an ITR for food, beverage and entertainment expenses that the registrant can claim during a given year must be added in calculating the net tax.

Changes will be made to this rule and no amount of tax paid in regard to such supply will give rise to an ITR or partial reimbursement, with the exception, under some circumstances, of registration fees paid as part of the organization of a convention.

Conventions

Where the supply of registration fees to a convention explicitly includes expenses for food, beverages and entertainment, i.e. where the convention participant cannot choose to exclude them when he pays the consideration for the supply, the convention organizer must pay QST on purchases of such goods and will be unable to claim an ITR on them. A convention participant who is a resident of Québec will pay the QST on the registration fees and may claim an ITR provided the supply acquired relates to commercial activities.

In addition, a convention participant residing in Québec who makes exempt supplies and whose registration fees constitute an eligible expenditure in calculating his income for income tax purposes can claim a reimbursement of the portion of the tax paid on registration fees that relate to food and beverage expenditures. Similarly, this reimbursement will be available to public service organizations that make exempt supplies and assume the registration fees on behalf of a convention participant.

The reimbursement will be granted under the same conditions as currently stipulated in the QST system for employees and members of a partnership, with the exception that a minimum claim threshold of $5 will be set for each day of the event in the case of individuals, and of $5 per claim in the case of organizations. The reimbursements will be calculated leaving aside the 80 % limit on the total of the amounts each of which represents an eligible reimbursement, excluding the part relating to entertainment.

In addition, a convention participant who is not a resident of Québec will not pay QST since the registration fees remain zero-rated.

Where the supply of convention registration fees does not explicitly include the supply of food, beverages or entertainment, i.e. where the convention participant can choose to exclude them from the consideration payable for registration fees, the convention organizer to whom such goods are supplied in fact acquires a non-taxable supply. As in the preceding situation, the organizer must collect the QST from a convention participant who is a Québec resident on the supply of registration fees and the supply of food, beverages and entertainment if applicable. The convention participant may claim an ITR or partial reimbursement for the supply of registration fees, but the supply of food, beverages or entertainment will not entitle him to reimbursements. A convention participant who is not a resident of Québec will not pay QST on registration fees since they will remain zero-rated, but must pay QST on the supply of food, beverages and entertainment.

These rules will also apply, with adaptations, to the organizer of a non-taxable convention, i.e. a convention for which it is reasonable to expect that at most 25 % of the delegates are residents of Canada.

Electricity, gas, steam and combustibles

The tax paid on acquiring or bringing into Québec electricity, gas, steam or combustibles will not give entitlement to an ITR or partial reimbursement, unless the acquirer could otherwise have benefited from the existing exemption in the retail sales tax system for such goods used to produce movable property.

In addition, in a way similar to what is stipulated in the GST system, a reimbursement of the tax paid for the electricity expenditure incurred by a convention organizer, whether a resident of Québec or not, will be granted, whether the convention registration fees are taxable or not.

Fuel

An input tax refund or a partial reimbursement can be claimed for fuel, except fuel used to power a road vehicle for which an ITR or partial reimbursement of the tax could not be claimed.

In addition, in view of the non-reimbursement of the tax paid on acquiring fuel or bringing it into Québec, and in order to maintain the current tax treatment for interprovincial and international carriers concerning the fuel contained in the tank supplying the motor of vehicles used for such transport, changes will be made to the QST system.

The rules that currently apply when fuel acquired outside Québec is brought into Québec and contained in the tank supplying the motor of such vehicles will continue to apply, with adaptations, on July 1, 1992.

Similarly, existing rules allowing the reimbursement of the Québec retail sales tax on the purchase of fuel in Québec by a person who carries on a business when the fuel is taken and used outside Québec to supply a motor of such vehicles will be maintained with adaptations.

The current reimbursement of the fuel tax and retail sales tax for public transit organizations, and the $500 annual tax credit for taxis, which is designed to take the fuel tax into account, will be maintained in view of the non-reimbursement of the QST paid on acquiring fuel or bringing it into Québec.

Incidental changes

Changes to the rules for certain supplies not subject to taxation

The QST system applicable as of July 1, 1992 includes a number of provisions to prevent certain supplies of goods and services from being subject to tax. In particular, this includes supplies of goods and services made within a closely related group, and the transfer of assets by a person.

Since acquiring or bringing certain goods and services into Québec will not give entitlement to ITRs, and to avoid giving some suppliers an advantage over others, some of these provisions must be changed.

The rule whereby the supply by a registrant of all or almost all the goods used as part of a commercial activity that constitutes all or part of the business he carries on is not subject to tax will, when the goods supplied do not give rise to ITRs, be limited to the situation in which the registrant who acquires the goods continues to carry on the business in which the goods were used.

Furthermore, the tax will apply to the supply of goods or services between members of a closely related group when these goods or services do not give rise to an ITR and the retail sales tax or the QST has not been paid on this supply by the member who makes the supply or when it gives rise to an ITR or partial reimbursement.

This rule will also apply, with adaptations, to a given unincorporated organization which is a member of another unincorporated organization which submitted a request to the Minister of Revenue jointly with the given organization in order that the given organization be deemed a branch of the other organization and not a separate person. This will also apply to the supply of services made by a registrant who participates in a joint venture, other than a partnership, to another person to explore for or develop mineral deposits or any other prescribed activity.

Information required for an ITR claim

A registrant cannot claim an input tax refund for a good or service unless he has sufficient proof supporting his claim and providing the information needed to determine the amount of the reimbursement.

The information required will be the same as under the GST system, with adaptations.

The information registrants obtain from their suppliers is determined on the basis of the value of supplies made and stipulates, among other things, that when the tax is included in the amount paid for the supply, an indication to that effect is sufficient and necessary for supplies for which the total invoice is $30 or more.

In addition, notably, for supplies for which the total invoice is $150 or more, a description sufficient to allow the identification of each supply is required.

To take into account the changes made to the QST system and to ensure the integrity of the tax base at the regular taxable rate, the amount of the Québec sales tax paid will be required to be shown specifically for all supplies, since it will no longer be possible to extract the QST portion using the tax fraction.

Also, for supplies for which the total invoice is less than $150, the registrant will have to obtain a description sufficient to allow the identification of each supply if the invoice, in the absence of such description, is insufficient to determine with certainty the eligibility for an ITR of the good or service supplied.

2.8 Other changes to the QST system

Transportation services

The QST system provides that the supply of a passenger transportation service that is part of a continuous journey is taxable when the point of origin is in Québec and the final destination is in Canada.

Changes will be made to the QST system to zero-rate the supply of a passenger transportation service that is part of a continuous journey, including air service, beginning with air service at Gatineau airport.

Supplies between the members of a closely related group

To ensure the integrity of the QST system, changes will be made to the provisions for taxable supplies of goods or services made between members of a closely related group. These rules will not apply, notably, to the taxable supply made to an insurer which, through that supply, acquires either a good destined to replace another good in respect to which a claim is made that it must settle under an insurance policy, or a good or service for the repair of that other good.

In addition, changes will be made to the rule providing that a registrant who offers financial services to a consumer cannot obtain an input tax refund with respect to a good or non-financial service furnished to the consumer at the time of the supply of a financial service for the sole purpose of enabling the consumer not to pay the tax that would be payable if the good or service was furnished otherwise. These changes will ensure that this restrictive rule will also be applicable when the good or non-financial service is received from a member of a closely related group.

Reimbursement of the sales tax on housing

In order to avoid double taxation, the QST system provides for a transitional reimbursement of the sales tax on new housing when construction or major renovation work is begun before July 1992.

In order to simplify and improve the application, changes will be made to the reimbursement where taxable supplies of detached houses, semi-detached houses and rowhouse units are concerned.

Thus, if the work is more than 25 % but not more than 50 % complete on July 1, 1992, a reimbursement equal to half the estimated tax will be given if the transfer of ownership takes place before October 1, 1992.

For a dwelling more than 50 % finished at July 1, 1992, the amount of the reimbursement will equal 66 2/3 % of the estimated tax, if the transfer of ownership takes place before October 1, 1992, and 33 1/3 % of the estimated tax if the transfer of ownership takes place before January 1, 1993. For a project at least 90 % complete at July 1, 1992, a reimbursement of 33 1/3 % of the estimated tax will be granted if the transfer of ownership takes place after 1992 and before 1996.

The reimbursements can be given the builder at the time of transfer of ownership of the dwelling, if an agreement to cede the dwelling, transferring the right to the reimbursement to the builder, has been made with the buyer.

The beneficiary may choose one of the following revised methods of calculating the estimated Québec tax :

- 3.4 % of the consideration payable, calculated before any tax except the GST is applied ;
- $40 per m^2 of living space.

Administrative rules

Reporting periods

In general, the QST system applicable as of July 1, 1992 provides that the reporting period of a person corresponds to the calendar month. In addition, a person must file a return with the Minister of Revenue for each of his reporting periods in the month following the end of each of them.

To allow for certain accounting practices, a measure will be introduced to allow businesses whose accounting system is based on 12 accounting periods that do not correspond with the end of calendar months, to remit the sales tax collected during their accounting periods that relate to a given calendar month to the Minister of Revenue. This change is geared mainly to businesses that operate on so-called 5, 4, 4 accounting periods.

To ensure that a return is filed each month, the QST collected during any accounting period ending within the seven days before or after the last day of the calendar month concerned must be considered in the return to be filed with the Minister of Revenue for the given calendar month. Furthermore, an accounting period may not include fewer than 28 days or more than 35 days.

The QST system allows small suppliers of services, i.e. those with annual taxable supplies of not more than $30 000, to elect not to register, collect the QST or file monthly returns to the Minister of Revenue. However, as in the GST system, taxi and limousine operators within a regulated rate structure may not make this election, and will be required to register, collect the QST and file monthly returns.

As a result of this special treatment of the taxi industry, filings may be made quarterly if the annual volume of these operators' taxable supplies is no more than $100 000.

Other clarifications

Proposals have been submitted by interested parties in the agriculture sector and the school board network. With a view to their most effective implementation, these proposals are currently being studied and discussed with federal authorities, and the results of these efforts will be announced at a later date.

Transitional rules

Reimbursement of part of the sales tax collected for certain supplies

Under the application of the transitional rules of the QST system, some businesses have been collecting the Québec sales tax since May 1, 1992 for supplies of goods and services that are generally made after April 30, 1992 and that become taxable as of July 1, 1992. However, in general, the businesses have not yet remitted this tax to the Minister of Revenue.

To reflect the reduced tax rate on the supply of an immovabile, a service and incorporeal movable property, a reimbursement mechanism will be implemented. Beginning the day following the day of the Budget Speech, businesses that have collected the Québec sales tax at 8 % for a supply taxable, as of July 1, 1992, at 4 % will have to reimburse consumers for the difference between the amount of tax paid and the amount that should have been paid as a result of the changes introduced in this Budget Speech, and keep records to that effect.

When the invoice is issued and the business has not collected the tax, the consumer will be able to adjust the amount of tax payable.

In addition, the amount representing the difference between amounts collected for Québec sales tax at 8 % and amounts that should have been collected at 4 % as a result of the changes introduced in this Budget Speech, and for which consumers have not demanded a reimbursement by September 1, 1992 must be remitted to the Minister of Revenue.

Businesses will be able to compensate for amounts that will be remitted to the Minister of Revenue by the day of the Budget Speech in a subsequent reporting period. If such compensation is not possible, they can apply for a reimbursement from the Minister of Revenue.

Change to taxable supplies for which the purchaser must make a remittance

The QST system applicable as of July 1, 1992 provides for two situations in which the person, other than a consumer, who acquires a taxable supply made by a supplier in the normal course of his business, for which the consideration becomes due or is paid after August 31, 1990 but before May 1, 1992 must pay the tax to the Minister of Revenue no later than October 1, 1992.

This concerns the taxable supply of incorporeal movable property by licence or similar arrangement, made in Québec, for which the consideration of the supply constitutes a royalty or similar payment chargeable to a period after June 30, 1992, and the taxable supply of a service made in Québec relating to a service not performed before July 1, 1992.

For simplification purposes, these provisions will be changed to allow the person who acquires the taxable supply of incorporeal movable property or service to be used in Québec exclusively as part of his commercial activities and for which he would be entitled to apply for an input tax refund if he had remitted the tax, not to be required to pay the tax to the Minister of Revenue.

Goods and services tax harmonization measures

In accordance with the general principle, the Québec sales tax system will generally be harmonized with the GST system.

Certain changes announced in press releases of the federal Department of Finance and the federal government, namely, release 92-005 on taxable benefits, release 92-012 on cross-border purchases and contraband tobacco, and release 92-020 on various technical improvements to the GST system will be incorporated, with adaptations, on the basis of their general principles, into the QST system. Measures that will not be incorporated represent rules that are not applicable or do not correspond to features of the QST system.

Rules on taxable benefits

Concerning taxable benefits, clarifications have been made to the application of certain changes concerning the GST included in taxable benefits, in particular regarding the effective dates of certain changes previously announced relating to the taxation of the fraction of the value of the taxable benefits to include in calculating the income of employees and shareholders which represents the GST. Québec's tax legislation and regulations will be amended to integrate, with adaptations on the basis of their general principles, these federal tax measures. These concordance measures will only be adopted, however, after any federal legislation resulting from the press release has been assented to, and will be applicable on the same dates as they are applied for federal tax purposes.

To take into account the effective date of the QST system from which stems the application of two consumption tax systems in Québec for the same taxation year, changes will be made to determine the amount of tax relating to a taxable benefit that must be included in calculating the income of an employee or shareholder for the 1992 taxation year.

For the 1992 taxation year, the amount of Québec retail sales tax paid in 1992 will reduce the amount used to establish the taxable benefit and included in the calculation of income for this purpose. In addition, an amount corresponding to 8 % of the amount of the benefit otherwise determined must be included in calculating the beneficiary's income.

Furthermore, the assumptions in the QST system relating to taxable benefits will not apply, in 1992, to the supply of a good or service if the Québec retail sales tax was paid in 1992 or was not applicable in 1992. Similarly, these assumptions will not apply, for any taxation year, to the supply of a road vehicle that would not entitle the taxpayer to an ITR or partial reimbursement.

Rules on cross-border purchases and contraband tobacco

Concerning the measures announced by the federal government affecting cross-border purchases and contraband, the QST system will be harmonized notably only with the federal measures relating to imports by mail and courier and to the exemption for fine cut tobacco for travellers returning to the country, which will be applicable on the same dates as they are for purposes of the federal legislation.

Technical improvements to the GST system

As far as technical changes to the GST system are concerned, the QST system will be harmonized notably with the federal measures concerning :

1. changes relating to water ;
2. fertilizers and pesticides ;
3. termination of registration ;
4. imports by exporters of processing services, taking the provincial context into account ; and
5. rules on joint ventures.

These changes will take effect as of July 1, 1992.

The QST system will not incorporate the federal measures relating to :

1. goodwill supplied by a financial institution ; and
2. the reimbursement of the federal sales tax on inventory.

As far as the measure relating to the reimbursement of the federal sales tax on housing is concerned, refer to the section dealing with the reimbursement of the sales tax on housing.

In addition, the changes concerning the rental of passenger vehicles will be incorporated into the QST system, taking into account, however, the fact that road vehicles generally will not entitle the taxpayer to an ITR and partial reimbursement.

Administrative measure

In view of the short time available to implement these adjustments to the reform of consumption taxes, notably information for agents and changes to administration systems required for the management of the QST, the ministère du Revenu will immediately take all reasonable and necessary administrative measures, working with the competent authorities, to act on this Budget Speech.

3. Economic recovery

3.1 Supporting the recovery throughout Québec

Program to support the recovery in SMBs

In the 1990-1991 Budget Speech, the government introduced a program to assist SMBs in order to curb the effects of the recession on business. The object of this program was to help firms that were in temporary difficulty owing to the economic situation but that had good long-term growth prospects. The program ended on March 31. It injected capital into firms in the form of risk-sharing loans on the condition that the entrepreneur and the lending institutions also injected capital.

The loan envelope authorized within this program was increased three times, to $140 million. It has had a noticeable impact on the financial situation of businesses and on job maintenance and job creation. Close to 350 firms have been assisted, which has made it possible to maintain over 17 000 jobs so far.

RESULT OF THE SMB ASSISTANCE PROGRAM

	Number	Millions of $
Cases authorized	268	—
Amount of assistance	—	95.0
Value of projects	—	263.2
Jobs maintained or created	17 117	—
Estimates for cases under study	76	27.9

As the recovery begins, a good number of firms that survived the recession without too much difficulty must invest to improve their productivity or stimulate output. However, given the extent of the recession, these firms are generally not sufficiently sound financially to allow them to obtain the sums required for their projects from the financial institutions.

To deal with this problem and thereby accelerate the economic recovery, a new program is created at the SDI to replace the program to assist SMBs. This program will give financial institutions a loan guarantee when they finance a firm's investment project.

Eligible projects

Eligible projects must have as their object an investment or a business combination, and include training expenses, research and development expenses and working capital. Working capital requirements will be eligible when related to increased output following the resumption of business activity.

Eligible activity

Eligible activity includes manufacturing, recycling, tourist services, services related to information technology and laboratory services.

Eligible businesses

Eligible businesses in the manufacturing sector have less than $25 million in assets and no more than $10 million in net equity and those in other sectors have less than $20 million in sales. They must have good growth prospects and a debt no larger than four times net tangible shareholders' equity. They must also have made a profit during two of the last five fiscal years. The financial institution must give the SDI its reasons for requesting the loan guarantee.

Financial assistance

The financial product offered is a guarantee for the lending financial institution of up to 50 % of the loss on the loan granted, after the right to the guarantees payable has been exercised. The loan guaranteed cannot exceed $10 million or be less than $100 000. The guarantee carries a maximum term of five years for investment projects and two years for the working capital. The loan can be accompanied by a two-year moratorium on the repayment of the principal for an investment project or a business combination project.

The program to support the recovery in SMBs will be in force until March 31, 1993 and will have access to $60 million in loan guarantees, which should generate investments of about $150 million. The Minister of Industry, Trade and Technology will soon make public the terms and conditions for applying this measure.

The Rental Building Renovation Program

The Rental Building Renovation Program was set up by the Québec government in 1990. It granted financial assistance to the owners of rental units or rooming houses, generally occupied by low-income households, in order to have them brought into line with minimal health and safety standards. This program, entirely financed by the government, is administered by the Société d'habitation du Québec (SHQ), in cooperation with the municipalities and regional county municipalities.

The renovation work required in units occupied by low-income households is extensive. In view of this and in order to help stimulate the economy, the Québec government increased the budget allocated to the SHQ under this program to $55 million in 1991-1992, within the framework of the plan of action to support the economy announced in January 1991 by the Prime Minister of Québec. At March 31, the SHQ had committed this entire amount, which, according to the data provided by that agency, was used to renovate close to 8 000 housing units.

Given the success of this program and the urgent requirements that persist in this area, the government will again resort to this vehicle to support the economy this year. As a result, the $23.5 million currently earmarked for this program will be increased by $31.5 million in 1992-1993. The SHQ will thus be able to allocate $55 million to rental housing renovation this year. This measure should make it possible to renovate an additional 8 000 units or so in 1992-1993.

Special works program for the local road network

On December 14, 1990, the government announced that it intended to transfer responsibility for the local road network to the municipalities as of April 1, 1993. An amount of $35 million will be spent in 1992-1993 to improve this network before the transfer of responsibility.

Renovation of reception and accommodation centres

The reform of the health and social services system gives priority to improvements in services for the elderly. At present, a number of accommodation and long-term care centres are outdated, which complicates service organization. The government therefore considers it necessary to introduce a major catching-up program under which the buildings will be preserved and renovations to make them more functional will be undertaken, particularly in the case of homes for the elderly. Investments of $240 million will be made to this end, at the rate of $80 million per year for three years.

The budgetary impact of this investment program on the debt service of the health and social services network is evaluated at $1.0 million in 1992-1993, $7.0 million in 1993-1994 and $17.0 million in 1994-1995.

3.2 Regional economic development

The globalization of markets underscores the need to restructure the Québec economy. Like the other industrial economies, it must evolve from an economy based on mass production and the exploitation of natural resources to a value-added economy. The effects of this change are felt in all regions to varying degrees, depending on the importance the industries affected by competition have in their industrial structure.

In view of this situation, regional vitality is growing, evidence of the desire of regional participants to exercise greater control over their own development. The new regional development strategy adopted at the end of 1991, which promotes the principle of the State fostering regional vitality, is actually designed to confer a greater role on the regions.

The measures described in this section are in step with this view. Many of them are intended to boost regional economic development by creating an environment in which SMBs can flourish. In keeping with the principles of the new strategy, the assistance granted under these measures will be adjusted to take into greater account the particular characteristics of the regions.

The measures are grouped according to four themes : regional venture capital, support for technological innovation and automation, support for entrepreneurship and the development of natural resources. Over the next three years, the implementation of these measures will call for budgetary outlays of $67 million. This amount will be added to the sums already allocated by the government to regional development.

BUDGETARY IMPACT OF REGIONAL DEVELOPMENT MEASURES
(in millions of $)

	1992-1993	1993-1994	1994-1995	Total
Regional venture capital	1.4	1.8	1.8	5.0
Support for technological innovation and automation	13.7	16.1	17.2	47.0
Support of entrepreneurship	2.0	3.0	3.0	8.0
Forestry job creation	7.0	—	—	7.0
Total	**24.1**	**20.9**	**22.0**	**67.0**

Regional venture capital

If the creation of new firms in the regions is to be stimulated, the expansion of existing industries accelerated and the foundation for innovative firms broadened, regional entrepreneurs must have access not only to venture capital but also to the expertise of experienced investors.

Regional venture capital is required in two areas : for the expansion of existing firms and the financing of business start-ups. Since each of these possesses has its own specific characteristics, two separate networks will be created. However, in order to foster communication, there will be operational ties between the two.

Creation of a network of regional investment corporations

In order to provide the equity capital required for the development of expanding firms, the Caisse de dépôt et placement du Québec and the National Bank of Canada, the Fonds de solidarité des travailleurs du Québec and the Mouvement Desjardins have agreed to complete and structure a network of regional investment corporations. These corporations will make investments of up to $500 000 in SMBs.

In order to serve all the regions, five new corporations and four satellites of existing corporations will be created. These new entities will be added to the six existing corporations so that firms in all the regions will have access to 15 service outlets for venture capital. This extension of the network will call for $47 million in addition to the subscribed capital the existing corporations already have, bringing the total venture capital available to SMBs to $100 million.

Government assistance will consist in taking over part of the administrative costs of the new regional investment corporations. Government support will bring the operating costs assumed by the shareholders of the corporations down to 2 % of subscribed capital each year. Government participation in the operating costs will allow the regional corporations to hire a sufficient number of competent managers to prospect for investments and subsequently provide adequate support for SMBs. Government assistance will amount to $1.8 million a year for four years.

Business assistance funds

Experience has shown that, without government intervention, start-up firms run into difficulty obtaining venture capital to finance their projects. This difficulty is particularly great for needs of less than $200 000.

To deal with this problem the Minister for Regional Affairs has announced the creation of a business assistance fund in each region, replacing the Regional Permanent Job Creation Program (PRECEP). The Minister mandated a committee of representatives of the secrétariat aux Affaires régionales, the Office de planification et de développement économique du Québec, the ministère de l'Industrie, du Commerce et de la Technologie and the ministère des Finances to determine the terms and conditions of operation of these Funds. The following section summarizes the recommendations accepted by the Minister for Regional Affairs with respect to the terms and conditions that will govern the creation and operation of the business assistance funds.

— General description of the business assistance funds

The business assistance funds will be corporations with the mandate to make unsecured loans to start-up firms, that is, firms less than three years old. All for-profit firms are eligible except those in the retail sales sector.

In order to bring start-up enterprises into a network of investors right from the start, operational ties will be established between the business assistance funds and the regional investment corporations. The president of the regional investment coroporation, for instance, will sit on the board of directors of the fund.

— Board of directors

The business assistance funds will be managed by a board of directors whose main mandate will be to approve loans and encourage private investors to become partners in the fund.

The board of directors will be made up of a representative of the regional council, the regional affairs representative and the president of the regional investment corporation. Representatives of other bodies in the region and private investors associated with the fund may also sit on the board of directors.

— ***Financial assistance***

The funds will provide generally unsecured loans. The maximum loan granted will be the lesser of $200 000 and an amount based on a percentage of eligible expenses. This percentage will vary with the regions. The loan could reach 35 % of eligible expenses in the case of less affluent RCMs, 30 % in outlying regions and 20 % in central and metropolitan regions.

An interest exemption of up to 30 % of the value of the loan will be granted and the loan must be repaid over a five-year period at most beginning when the interest-free period ends. The assistance granted by the fund will depend on the promoter or promoters' providing an amount equal to at least 20 % of the eligible expenses.

— ***Loan management***

In order to minimize the cost of managing the business assistance funds, the loans granted will be administered by a financial institution chosen by the borrower. They will be guaranteed for the financial institution by the government and comply with the characteristics agreed upon between the fund and the promoter, notably with respect to the interest rate and the interest-free term.

An amount of $10.5 million per year will be needed to cover the financial requirements of all the business assistance funds resulting from the granting of interest-free terms and to constitute a provision for losses with respect to the loans granted. The cost of hiring staff for the business assistance funds will be defrayed initially by the government. An annual amount of $2 million has been earmarked to this end.

With the sums allocated by the government for starting businesses, about $15 million in unsecured loans can be granted each year by the business assistance funds. On the basis of past experience, this kind of support will generate investment in excess of $60 million and the creation of over 150 new businesses in the regions. The Minister for Regional Affairs will make public the terms and conditions of operation of the business assistance funds shortly.

Support for technological innovation and automation

Given the current globalization of markets, regional development would be impossible without increased recourse by business to new technologies. SMBs, especially those which are only slightly or moderately technology-intensive, have difficulty identifying and selecting the technology best suited to their needs, since they do not generally have the qualified staff required. SMBs must therefore turn more frequently to outside consultants in this area.

Hiring specialists at the needs evaluation stage is a risky and relatively costly process for SMBs, especially in the outlying regions, which are far from the offices of consultancy firms. Three measures are therefore introduced to facilitate the transfer and dissemination of technologies to the SMBs, in particular those located outside the major centres. To this end, $47 million will be allocated over the next three years for financing courses of action taken under the SMB-Innovation, Support for Strategic Employment and development of the network of specialized college centres.

SMB-Innovation

The purpose of this new program is to accelerate the transfer and dissemination of technologies to SMBs in the regions by extending the scope of courses of action taken earlier through the AMITECH program. A new program, SMB-Innovation is thus created to subsidize part of the consultancy expenses incurred by SMBs to have their needs in regard to modernization, technological innovation and productivity enhancement through total quality analysed and diagnosed. Expenses incurred by SMBs for the introduction of new technologies, product improvement or adapting production equipment will also be eligible under the program. Expenses incurred within the firm are eligible for assistance if the firm also hires outside consultants or specialized college centres to carry out part of the project.

The assistance granted under each aspect of the program will be adjusted on the basis of specific regional conditions, according to the table presented below.

REGIONAL ADJUSTMENT OF ASSISTANCE GRANTED UNDER THE SMB — INNOVATION PROGRAM
(in % of eligible expenses)

Regions	Analysis and diagnosis	Implementation
Central regions and Greater Montréal	40	30
Less affluent RCMs in the central regions	50	30
Outlying regions	60	40
Less affluent RCMs in the outlying regions	70	50

The SMB-Innovation program will receive $18 million over three years for analysis and diagnosis and $6 million during the same period for implementation assistance. The Minister of Industry, Trade and Technology will make public the details of the application of this new program shortly.

Support for strategic employment

The lack of specialized manpower in strategic positions, particularly scientific positions, constitutes an obstacle to the introduction of new technologies in SMBs. The Program to Support Strategic Employment (PSSE) is designed to remedy this situation by subsidizing the hiring of specialists by SMBs for three years.

The evaluation of this program shows that it produces convincing results for the SMBs that profited from it. However, rates of assistance as a percentage of basic salary will be adjusted regionally to respond more fully to the strong need for qualified manpower in the regions. Over the next three years, an annual sum of $4 million will be paid through this program to SMBs that hire specialists.

REGIONAL ADJUSTMENT OF THE PSSE PROGRAM
(in % of eligible salary)

	Year		
Regions	**First**	**Second**	**Third**
Central regions	30	20	20
Outlying regions	50	20	20
Less affluent RCMs in the outlying regions	60	20	20

On-the-job training in the specialized college centres

In order to upgrade vocational training, particularly in technical fields, a new section is added to the PSSE to enable employees of manufacturing industries to receive on-the-job training lasting a maximum of six months in research centres or specialized college centres. Assistance will be adjusted regionally and will cover a percentage of the basic salary of the employee and of his travelling and living expenses. To this end, $3 million will be allocated over three years.

REGIONAL ADJUSTMENT OF THE NEW SECTION OF THE PSSE

Regions	**% of basic salary**
Central regions	60
Outlying regions	70
Less affluent RCMs	80

Development of the network of specialized college centres

The network of 15 specialized college centres, gradually created since the early 1980s, has contributed substantially to regional development, both through the training it provides and through its role as an agent of technological transfer for business. Many specialized centres have grown in a spectacular fashion in recent years. Thanks to these developments, they are in a position to meet most of the needs of business in terms of product development, laboratory testing, implementation and optimization of production processes, personnel training and so forth in their particular spheres of specialization. Some of them have even developed expertise in management and marketing assistance, and play a role as business incubators.

To enable the colleges and specialized centres to intervene more effectively where businesses are concerned, $8 million will be made available to them over the next three years. This amount will serve to finance two courses of action. A sum of $2.5 million will be earmarked over three years for opening three new specialized centres and to add new components to two existing centres in sectors corresponding to the industrial clusters the government considers a priority.

An additional $5.5 million will be allocated to enable the centres to acquire new equipment or modernize existing equipment. The government's contribution under this program will cover one-third of the cost of the equipment. The colleges and other agencies must assume the remainder. In view of these conditions, the new program will provide nearly $17 million for new equipment in the existing specialized centres. This assistance will be granted through competitions. Project selection will be based on intrinsic value and contribution to regional development. A committee made up of representatives of the secrétariat aux Affaires régionales, the ministère de l'Enseignement supérieur et de la Science, the ministère de l'Industrie, du Commerce et de la Technologie and industry will be responsible for project selection.

The Minister of Higher Education and Science and the Minister of Industry, Trade and Technology will make public the terms and conditions of application of these measures shortly.

Support for entrepreneurship

The economic development of the regions demands not only more sustained growth of existing firms, but also an increased rate of creation of new businesses. Government action to support entrepreneurship is essential if the industrial structure of the regions is to be renewed since entrepreneurship is the very essence of the vitality of the regional economies.

The government supports a good many initiatives in this area, such as business incubators, business creation centres and the Fondation de l'entrepreneurship. These have a significant impact on the extension of entrepreneurship in all the regions.

To support and promote entrepreneurship in the regions, $8 million will be allocated over three years to the secrétariat aux Affaires régionales. About 80 % of this amount, or $6.5 million, will be used to finance specific activities to support entrepreneurship, initiated by the regional councils as part of their annual programming. The remaining $1.5 million will be allocated to the financing of province-wide activities to promote entrepreneurship. To obtain financing, programming must be approved by the Minister for Regional Affairs.

Support for financing mining exploration

Financing by means of flowthrough shares

Regional development is a major concern for the Québec government. The maintenance and improvement of tax incentives for resource industries have encouraged continued exploration, while directing access to outside funding, by means of flowthrough shares, toward firms earning no revenues from resource development.

In order to preserve a comparative advantage in this sector and to promote the acquisition of flowthrough shares by Québec taxpayers, additional deductions for exploration costs incurred in Québec were extended and increased for 1992 and 1993 in the 1991-1992 Budget Speech.

Two major measures are introduced today to provide additional tax assistance to this industry.

— *Readjustment of deduction rates*

At present, in addition to the basic 100 % deduction, an individual can benefit from an additional deduction of 33 1/3 % for certain costs related to mining, oil or gas exploration in Québec. In addition, in order to reflect the higher risk involved in the first stage of mining exploration, a supplementary deduction of 33 1/3 % is granted for certain surface mining costs incurred in Québec by a junior exploration company earning no resource development revenues, bringing the total deduction for these costs to 166 2/3 %. These deductions apply to costs incurred in Québec before January 1, 1994, subject to the 60-day period provided for in tax legislation.

To better reflect the higher risk run by a junior company incurring surface mining exploration costs, as opposed to underground mining exploration costs, the additional deduction of 33 1/3 % is reduced to 25 % and the supplementary deduction of 33 1/3 % is raised to 50 %, so that the difference in deduction rates between 125 % and 175 % will more faithfully reflect the risk differential inherent in these activities.

Individuals will thus benefit from deductions of 125 % for certain mining, oil and gas exploration costs incurred in Québec and 175 % for certain surface mining exploration costs incurred in Québec before January 1, 1994 by exploration firms earning no resource development revenues, subject to the 60-day period provided for in tax legislation.

This measure applies to securities in a public issue of flowthrough shares or to partnership units whose final prospectus receipt, filing exemption or written renunciation is obtained after the day of the Budget Speech.

— Two-year exemption for capital gains

At present, given the tax deduction, the adjusted basic price of flowthrough shares is nil, no matter what the purchase price paid by the taxpayer. Consequently, any alienation of flowthrough shares may result in a capital gain, three-quarters of which is taxable, even if the sale price is lower than the original purchase price. This part of the capital gain, based on the difference between the price paid for the share and its adjusted basic price, will be designated as a deemed capital gain.

Taxpayers can avoid taxation of this deemed capital gain however, by claiming an exemption for capital gains, up to a lifetime ceiling of $500 000 in the case of mining corporations that qualify as small businesses, and $100 000 in other cases. When the ceiling is reached, there is no other mechanism for avoiding the tax on this deemed capital gain when selling flowthrough shares.

To stimulate financing, a temporary mechanism is introduced to exempt from taxation the deemed capital gain realized when certain flowthrough shares are sold.

This exemption will be granted through the creation of a special account comprising three-quarters of the Canadian exploration costs incurred in Québec and giving entitlement to the additional deduction of 25 % or the supplementary deduction of 50 %, which a company renounced in favour of the shareholder.

When a flowthrough share is sold, the taxpayer will be able to reduce the related deemed capital gain by an amount equal to the lesser of three-quarters of this capital gain and the balance of the account. Any amount in the account thus used will reduce the balance of the account, while any new deduction in the Canadian exploration costs incurred in Québec will increase it. However, the taxpayer will only be able to use this special temporary exemption if he has exhausted his $100 000 or $500 000 capital gains exemption, depending on the case. In addition, rules will be adopted so that that part of the capital gain represented by the increase in the value of the flowthrough share over the real cost will continue to be taxable and the amounts accumulated in the account will not reduce this gain. Moreover, for greater precision, and as is the case at present, losses on these shares will not be deductible.

This measure applies to flowthrough shares and to designated substitute goods as well as to partnership units acquired in a public issue of flowthrough shares or partnership units the final prospectus, filing exemption or written renunciation for which was obtained after the day of the Budget Speech and before January 1, 1994, and to expenses which a corporation renounced with respect to these shares no later than December 31, 1993, subject to the 60-day period provided for in the tax system.

— Impact of these measures on the break-even point

The two measures concerning flowthrough shares announced above, that is, the new adjustment of the additional deductions and the temporary introduction of a cumulative account for exploration costs in order to reduce the deemed taxable capital gain, sharply decrease the break-even point of these securities, particularly for an investor who is not eligible for the $100 000 capital gains exemption.

BREAK-EVEN POINT OF A $100 INVESTMENT IN RESOURCE EXPLORATION, 1992 (in dollars)

	Before Budget	After Budget
Surface exploration		
— Investor eligible for the lifetime capital gains exemption	46.52	44.52
— Investor not eligible for the lifetime capital gains exemption	53.47	38.90
Underground exploration		
— Investor eligible for the lifetime capital gains exemption	54.52	56.52
— Investor not eligible for the lifetime capital gains exemption	66.42	53.94

Note : The lower the break-even point, the more advantageous the tax system for the investor.

Extension of the program to support mining exploration

For several years now, Québec has witnessed major activity in its mining exploration industry. This phenomenon is due in large part to the introduction of tax incentives which have enabled entrepreneurs to obtain the venture capital required to finance their mining exploration activities through Québec investors.

However, the situation has deteriorated since the October 1987 correction in the stock market, and even though the Québec government maintained and improved its tax incentives for the resource exploration industry, it proved more difficult for mining exploration firms, particularly junior exploration companies, to finance exploration projects on their mining properties.

A one-year program was thus set up last year, designed essentially to maintain minimum mining exploration among the more dynamic junior Québec companies in order to preserve the technical and financial expertise acquired in recent years. This measure is temporary, introduced as a stop gap until regular financing mechanisms once again serve to support this major regional economic activity.

The program is intended for any junior mining exploration company that has carried out in Québec at least $300 000 worth of mining exploration since January 1, 1988.

The program has a $5-million budget and is extended for another year. The firm must offer something in return for financial support, such as participation in the firm itself or in the mining properties concerned. The program is administered by the Société québécoise d'exploration minière (SOQUEM).

Increase in the QSSP deduction for regional corporations

The financial vehicle known as a regional venture capital corporation was introduced in 1986 to facilitate the creation and development of small and medium-sized businesses in the regions and ensure support for their capitalization, through investment in a regional investment limited partnership.

At present, shares issued by such corporations entitle purchasers to a 125 % deduction. In order to further promote the development of regional firms, this rate is increased to 150 %.

This measure applies to all shares issued after the day of the Budget Speech by a regional venture capital corporation holding a valid certificate from the Minister of Industry, Trade and Technology at the time of issue.

Additional reduction of the fuel tax in regions bordering on the United States

At present, fuel sold in the form of gasoline or propane in regions bordering on the United States is taxed at a reduced rate. The amount of the reduction depends on the distance between the gas station and the border. To obtain a reduced tax rate, the region must border on the United States and the gas station must be less than 20 km from a point of contact with the American border. The assistance applicable to fuel sales varies from 1.72 % to 45.86 % of the tax.

In order to enable fuel retailers in the regions along the American border to compete with their neighbours across the border, the reduction in the fuel tax rate will be increased as of midnight on the day of the Budget Speech in those regions. The new tax reduction rates are given in the table below and should make these gas retailers more competitive. The reduction in the fuel tax along interprovincial borders serves its purpose and will not be adjusted.

ILLUSTRATION, BASED ON REGULAR UNLEADED GASOLINE, OF THE FINANCIAL ASSISTANCE GIVEN RETAILERS IN THE BORDER REGIONS

Distance from border (km)	Rate reduction before Budget %	Rate reduction after Budget %	Assistance before Budget ¢/l	Assistance after Budget ¢/l
Border regions				
—0 to less than 5	45.86	50.13	7.7	8.4
—5 to less than 10	30.76	41.82	5.2	7.0
—10 to less than 15	16.81	33.44	2.8	5.6
—15 to less than 20	1.72	16.81	0.3	2.8

Application of changes

Retailers selling fuel in regions bordering on the United States must make a full inventory of the fuel they have in stock at midnight on the day of the Budget Speech. The ministère du Revenu will collect the information and, where applicable, make a remittance corresponding to the difference between the former tax rate and the new tax rate.

When fuel is delivered after midnight of the day of the Budget Speech to gas retailers or consumers in these regions, by wholesalers mandated by the ministère du Revenu to collect the tax, they must collect and remit it at the new rate.

Wholesalers who do not have an agreement with the ministère du Revenu to collect and remit the tax will be reimbursed for the amount of the specific tax reduction for fuel delivered after midnight on the day of the Budget Speech to gas retailers or consumers in these regions.

As is now the case, the tax reductions in these regions will apply only if the fuel is pumped directly into the tank of a motor vehicle or a container with a capacity of no more than 205 l, or directly into a consumer's stationary storage tank located in a region bordering on the United States.

Forestry job creation program

The foresry sector is of major importance to the economy of a number of regions of Québec. Many communities and thousands of jobs in the regions depend on it. Since 1987-1988, the government has granted on a number of occasions additional amounts to support employment in the forest sector. An additionai $7 million will be earmarked in 1992-1993 for a program to create jobs in the forestry sector. Of this amount, about $1 million could eventually be used, on a temporary basis, to reopen the Bois de l'Est sawmill complex.

4. An even more prosperous Québec in the future

The school drop-out problem

Preparing tomorrow's human resources is also a challenge for the education community. Almost four students in ten leave secondary school without a diploma. Such a high rate is very disturbing, since most jobs that will be created in the years ahead will require secondary level schooling at a minimum.

The Minister of Education initiated a major initiative with the objective of achieving 80 % graduation rate within five years. As a result of the ensuing consultation, a three-year action plan was prepared that specifies the corrective action required and on which there has developed a broad consensus among partners in the education community. The most important element is to quickly provide students with personalized help when they experience difficulties at school or at home. Beginning in the next school year, the government will add $42 million to deal with this problem, resulting in $30 million in additional funding for fiscal 1992-1993. The Minister of Education will soon announce the measures that will be implemented.

Participation of workers in improving business results

In the competitive environment of the 1990s, businesses have to become more competitive to achieve greater success. To do so, it is imperative that they invest in the basic determining factors of productivity : automation, research and development, technological innovation and manpower training. To improve productivity, business managers must also review their management methods and make use of more efficient production techniques.

However, in some cases, employee and employer resistance can prevent the large-scale distribution of organization methods that foster improved productivity. The total quality approach and worker gain sharing can lessen this resistance provided their common feature is to set the objective of improved productivity within an employee-employer relationship based on partnership and concerted action, since :

— the total quality approach associates the employer and the employee in a structured and organized process of reviewing the organization methods of the business ; and

— the establishment of a gain sharing plan allows workers to benefit from gains resulting from their contribution to the improvement of the business's productivity.

To encourage employees and employers to act together to improve the competitiveness of their business, a tax incentive is introduced to support the implementation of worker gain sharing plans that are part of a total quality approach.

In general, the measure consists in granting a tax benefit to the business and the employees for the amounts paid in cash to workers under a gain sharing plan that has obtained a certificate from the ministère de l'Industrie, du Commerce et de la Technologie and is registered with the ministère du Revenu du Québec. The tax assistance will consist of a deduction in the calculation of taxable income for employees and a tax credit for small or medium-sized businesses.

— Eligible sector

Workers and SMBs in the manufacturing sector, as defined by the ministère de l'Industrie, du Commerce et de la Technologie, can take advantage of these tax benefits. This sector has the most at stake in terms of competitiveness. In 1991, this sector had about 530 000 workers in Québec and 17 000 SMBs.

— Eligible employees and corporations

Employees eligible for the tax benefit are those employed by a corporation in the manufacturing sector, regardless of its size, that has implemented a gain sharing plan. To be eligible, the plan must notably satisfy the registration conditions and be part of a total quality approach. An employee who is also a shareholder of the corporation for which he works is not eligible if he holds, directly or indirectly, more than 5 % of the shares of any class of the capital stock at the time the plan is registered.

The corporation eligible for the tax credit must be an SMB in the manufacturing sector. For the purposes of this measure, an SMB is defined as a corporation with assets of less than $25 million or net shareholders' equity of no more than $10 million, according to the same rules as those applicable for purposes of the refundable training tax credit. A corporation that qualifies as an SMB when the gain sharing plan is registered, given the information available at the end of its preceding fiscal year, is deemed to be for the following five-year period.

— Assistance

The tax assistance provided under this measure is paid on the basis of the amounts received by workers under a gain sharing plan of the business. Eligible employees can deduct amounts received, up to $3 000 per year, in calculating their taxable income. The maximum amount deductible for an employee, in regard to any such gain sharing plan in which he participates, or has participated within a period of five years starting in the year of registration of the first plan in which he participated, is $6 000.

Eligible SMBs will receive a non-refundable tax credit of 15 % that can be carried over for five years on the eligible portion of amounts paid under a gain sharing plan to employees who normally report for work at a place of business of this corporation located in Québec. However, such a corporation will not be able to claim the tax credit for amounts paid to employees as of its taxation year following the fifth anniversary of the gain sharing plan's registration.

— *Impact on participants*

The following table illustrates the impact of the measure for participants in a gain sharing plan of an SMB with 100 employees. When the maximum eligible deduction is reached, tax assistance amounts to $1 380 for an employee whose taxable income is between $23 000 and $50 000. For the business, the value of the tax credit corresponds, in the following illustration, to about two-thirds of the tax benefit received by the employees.

ILLUSTRATION OF THE IMPACT OF THE MEASURE

Year	Amount from a gain sharing plan (in dollars)	Assistance		
		Employee	All employees	Employer
		(in dollars)	(in thousands of dollars)	
1	1 500	345	34.5	22.5
2	1 000	230	23.0	15.0
3	1 500	345	34.5	22.5
4	2 000	460	46.0	30.0
Total	**6 000**	**1 380**	**138.0**	**90.0**

— *Eligible gain sharing plans*

The gain sharing plan must be registered with the ministère du Revenu du Québec for the eligible employees and employers to be entitled to tax assistance. The business must have already obtained a certificate from the ministère de l'Industrie, du Commerce et de la Technologie to the effect that :

— the gain sharing formula allows employees to receive monetary compensation on the basis of the results of the business and that this formula was proposed to all employees and agreed to by a majority of them ; and

— the business has carried out a certain number of stages in a total quality approach.

The gain sharing plan must stipulate that the amounts paid to employees will be paid directly, and not through a trustee or other intermediary.

— *Gain sharing formulas*

The gain sharing formula must link the amounts paid to the employees to the results of the business. Among the most widespread indicators of results that are used in gain sharing formulas and that satisfy this condition are the gross profit margin and its variations, profits before or after taxes, profits before or after depreciation and unit labour costs. The amounts paid to employees must be calculated from data used to prepare the financial statements of the business, or shown therein.

Piece-work compensation, individual performance bonuses, sales commissions and individual rewards are some of the remuneration formulas not considered eligible gain sharing formulas within the meaning of this measure.

— Total quality

The implementation of a total quality approach is a continuing process extending over a period of three to five years. To certify that he has indeed undertaken a total quality approach, the employer must demonstrate that he has carried out the preliminary stages of such an approach, in particular:

— appointment of a quality coordinator;
— employee awareness through total quality initiation courses;
— development of written procedures to implement a quality assurance program;
— formation of a bipartite (employee-employer) quality management committee;
— implementation of quality circles.

— Certificate

To obtain a certificate, an eligible business must submit an application together with the relevant documentation to the office of the ministère de l'Industrie, du Commerce et de la Technologie in its region. The application must be accompanied by:

— a quality improvement plan;
— a statement signed by the employer and a worker mandated by the employees that the preliminary stages of a total quality approach have been carried out;
— a description of the worker gain sharing plan;
— a statement signed by the employer and a worker mandated by the employees to the effect that the gain sharing plan has been offered to all employees and that a majority of them accepted it.

The ministère de l'Industrie, du Commerce et de la Technologie will soon release the details of the procedure for obtaining the certificate, and the conditions that profit sharing formulas and the total quality approach must satisfy to meet the requirements of this measure.

— Registration rules

The ministère du Revenu is authorized to establish the regulations relating to the registration of gain sharing plans covered by this tax measure.

Under the general fee policy, the application for registration with the ministère du Revenu will carry a fee of $200 for businesses.

— Effective date

Worker gain sharing plans registered with the ministère du Revenu du Québec after December 31, 1992 and before January 1, 1996 will be eligible for this measure.

Improved business worker training tax credit

Increased tax credit rates for two more years

The refundable training tax credit implemented in the 1990-1991 Budget Speech allows a corporation to substantially reduce the cost of expenditures it incurs to train its workers. Eligible training expenditures range from the purchase of a human resources development plan for up to $10 000 to all training expenditures and, in some cases, to the wages paid to employees during training. One of the main eligibility criteria of the tax credit concerns the obligation the business is under to incur these expenditures with an external entity not related to the business. The tax credit rates depend on the nature of the expenditures incurred and the size of the business.

In view of the small amounts Québec businesses have invested in manpower training, and the importance that the measure have the intended impact as soon as it was launched, it was announced that the rates of the refundable training tax credit would be higher during the first three years of the plan. In spite of the difficult economic situation, more than 9 000 businesses and 100 000 workers have benefited from the tax credit to date, which is very encouraging.

To further support the efforts of businesses that are committed to worker training, the increased refundable tax credit, which was to expire on December 31, 1992, is extended for two years.

REFUNDABLE WORKER TRAINING TAX CREDIT
(rates in percentage)

	HRDP[1]	Training costs and employee wages
Basic rate		
SMB[2]	30	20
Large corporation	20	10
Additional rates applicable to expenditures incurred before January 1, 1995		
SMB[2]	20	20
Large corporation	10	10
Total applicable to expenditures incurred before January 1, 1995		
SMB[2]	50	40
Large corporation	30	20

1 Human resource development plan.

2 A corporation with assets of less than $25 million or net equity of no more than $10 million.

Eligibility of training expenditures incurred on behalf of a corporation that is a member of a partnership

Currently, a training expenditure can be eligible for the tax credit when it is made by a corporation. This requirement means that otherwise eligible expenditures incurred by a partnership that is not incorporated cannot be used to claim a refundable tax credit even if the members of the partnership are corporations. This result could prove harmful to corporations that have decided to pool their efforts or are thinking of doing so. Changes are introduced to correct this situation.

A corporation will now be able to claim the refundable training tax credit for training expenditures made by a partnership that is not incorporated and of which it is a member, provided that the expenditures can be reasonably attributed to the corporation and current eligibility conditions are met, taking into account the necessary adaptations.

This measure applies to training expenditures made after the day of the Budget Speech by a partnership that is not incorporated.

Eligibility criteria of training corporations eased

A training activity must be given by an eligible training establishment to entitle the taxpayer to the refundable training tax credit. This notion extends both to training establishments recognized by the ministère de l'Éducation and the ministère de l'Enseignement supérieur et de la Science, as well as to private training corporations registered as such with a Commission de formation professionnelle. Currently, the effect of the tax legislation is that only a corporation working in the training field can be registered. Consequently, corporations that are otherwise eligible and want to pool their resources in ways other than through a corporation do not currently qualify as registered private training corporations. A change will be made to broaden the notion of registered private training corporation to include a partnership all of whose members are corporations.

This measure applies after the day of the Budget Speech.

Clarifications concerning the individual worker training assistance program

The individual worker training assistance program, announced in the 1991-1992 Budget Speech, is notably designed to remove financial constraints that may thwart workers' individual training efforts. Government support is provided in the form of a loan guarantee, a non-taxable training benefit, and deduction from income tax of amounts of interest and principal repaid on a loan granted under this program. This deduction is conditional on obtaining approval for the studies.

Given the reconciliation exercise required because the financial assistance is notably granted on the basis of the employment income anticipated by the participant, a clarification is introduced concerning the deductibility of interest and principal repaid on the loan granted under this program.

Thus, only interest and principal payments on the loan made by the individual that is less than or equal to the reconciled loan will be deductible from income. Interest and principal repayments on the loan in excess of amounts relating to the reconciled loan, resulting notably from an under estimate by the individual of his employment income during training, will not be deductible from his income.

Furthermore, if approval of the individual's studies is not filed with the financial institution, charged with administering the program on behalf of the government, no later than two years after the date his studies are scheduled to be completed, no amount will be eligible for deduction for interest and repayment of principal relating to the loan.

More specifically, interest and principal repaid on a loan starting the day after the 10th business day after the Friday of the week during which training ends can be eligible for the deduction. Moreover, any amount paid after the period of 10 years starting on the date of the signature of the repayment agreement will not be eligible. Finally, any amount paid in relation to an optional insurance premium subscribed by the individual in regard to his loan will not be eligible for deduction.

Exercising a profession by means of a corporation

Currently, members of professional corporations governed by the Québec Professional Code generally cannot carry on their professional activities by means of a corporation.

The Minister responsible for the administration of the legislation on professions intends to table a bill in the National Assembly authorizing members of professional corporations to exercise their profession by means of a corporation.

The economic environment and the structure of business practice, in particular the exercise of a profession, have changed a great deal in recent years and professionals' businesses face greater international competition. For instance, in the context of trade globalization, professional services are likely to be increasingly covered by national and international alliances between foreign partners or partners from other provinces in Canada, many of which already have given professionals the option of exercising their profession by means of a corporation.

In addition, a corporation is a more flexible vehicle for professional practice and is better adapted to the greater mobility of professionals on the labour market. Incorporation can also provide substantial financial benefits. For instance, it makes business capitalization easier by simplifying access to capital markets. Lastly, it makes businesses eligible for special tax measures such as tax incentives to support strategic investments.

Therefore, should the government decide to authorize professionals governed by the Professional Code to carry out their activities by means of corporations and to pass a law to that effect, professionals will be able to take advantage of the tax system applicable to corporations, with the exception of provisions regarding the three-year exemption from income tax and tax on capital for newly incorporated businesses.

Members of a professional corporation will have the option to take advantage of the tax system applicable to corporations on whichever of the following dates occurs last, if the government decides to authorize the exercise of professional activities by means of a corporation, i.e. either January 1, 1993, or the date set by the government by order in council for the entry into force of the legislation and the necessary regulations to this effect.

Support for the cultural sector

Studies continuing on the taxation of cultural industries

The Minister of Cultural Affairs intends to propose a new cultural policy for the government's approval. The ministère des Finances is currently studying certain tax measures that could be introduced in this context to further support the growth of cultural industries. Decisions in this regard will be announced by the Minister of Finance of Québec when the document on the government's cultural policy is tabled.

Cultural initiative projects in cooperation with municipalities

An amount of $5 million will be granted to the ministère des Affaires culturelles as of 1992-1993 to support cultural initiative projects in cooperation with municipalities, notably in the regions.

Improvement of the film and television production tax credit

— Forgoing the credit on expenditures incurred before investment

Currently, a film and television production business can receive an investment from a QBIC and allow the latter's shareholders to enjoy an additional deduction of up to 100 % of expenditures for which it forgoes claiming an amount of refundable tax credit. There is a similar mechanism in the Québec Stock Savings Plan (QSSP) for film and television production businesses listed on the Montréal Exchange.

Labour expenditures that entitle taxpayers to the 40 % tax credit are those relating to each stage in the production of a film. In general, the public financing of a production occurs when shooting is about to begin, so that the producer cannot transfer to the investors the tax benefits associated with expenditures incurred before then.

To make the QBIC vehicle more attractive and to facilitate the issue of shares eligible for QSSP purposes as part of the public financing of one or more Québec productions, it will now be possible, under certain conditions, for a business that has issued participating shares to forgo the tax credit resulting from expenditures made regarding a production before the date of the investment by a QBIC or, as the case may be, before the date of the final prospectus or filing exemption. An eligible corporation will thus be able to forgo additional amounts of tax credit no later than the end of the fiscal year when the main shooting or recording begins for a production in regard to which participating shares have been issued, provided it has not benefited from it.

Expenditures thus transferred to investors will be deemed to be eligible expenditures made after the date of the investment by the QBIC or, in the case of participating shares that constitute shares eligible for the QSSP, after the date of the final prospectus or filing exemption.

This measure applies to an investment made by a QBIC in accordance with a final prospectus or filing exemption obtained after the day of the Budget Speech. It also applies to a public issue of shares eligible for the QSSP for which the receipt of the final prospectus or filing exemption has been granted after that day.

— Broadening the notion of production costs

Currently, in general, a film certified as a Québec film by the Société générale des industries culturelles, which is a film or television production otherwise eligible for the tax credit, can entitle the taxpayer to a tax credit of 40 % on labour expenditures an independent firm incurs and pays for the purpose of producing it. Labour expenditures eligible for this tax credit cannot, however, exceed a total of 45 % of the production costs the firm has incurred before the end of the year.

This notion of production costs can result in certain production costs not borne by the producer not being considered in the determination of the tax assistance ceiling. Such is the case, for instance, with production fees and the contribution of goods and services used for the production for which the producer pays no consideration.

To ensure that the rules correspond more closely to the objective of the tax policy, clarifications will be made to Québec's tax legislation so that the maximum tax assistance can be determined on the basis of all production costs incurred for a certified Québec film.

This favourable measure for the film and television production industry applies retroactively to any production that can or could have benefited from the Québec film and television production refundable tax credit.

Adjustments to measures to improve capitalization of businesses

Québec Stock Savings Plan (QSSP)

The Québec Stock Savings Plan was overhauled in the May 2, 1991 Budget Speech to respond better to its true objective of ensuring better capitalization of those Québec businesses in greatest need. Temporary measures were also implemented for certain convertible securities listed on a stock exchange, and for the annual ceiling applicable to shares of large corporations to reflect the situation on stock markets at that time. These temporary measures are extended for one year to further promote public distributions through the QSSP.

Since 1988, purchases of securities of a QSSP investment fund (QIF) can be covered by a stock savings plan. Securities of such a fund allow investors to claim the benefits of the QSSP while taking advantage of the knowledge of investment experts, diversifying their portfolios and minimizing their risk.

In 1990, a new QIF category was introduced to increase the flexibility of this investment vehicle. In general, a QIF that agrees to invest an amount equal to at least 50 % of the proceeds of the issue in securities of growth corporations, that is those whose assets are greater than $2 million and less than $250 million, has an additional 12 months in which to fulfil its commitment. In such a case, an individual can claim, beginning in the year the securities of such a QIF are acquired, a deduction determined on the basis of the QIF's commitment to acquire the securities of growth corporations.

QIFs have not been as successful as had been hoped, in view of the small number of QSSP issues since 1988. To promote the creation of QIFs, changes will be made to make the rules applicable to a QIF more similar to those applicable to an individual who invests directly in his QSSP, as well as to facilitate its management.

— *Continuation of the higher ceiling of $2 500 for another year*

Common shares with unrestricted voting rights issued under the QSSP by a corporation with assets of at least $1 billion but less than $2.5 billion entitle the taxpayer to a deduction of 50 %. The annual maximum deduction a taxpayer can claim for such shares, apart from the general ceiling of 10 % of the taxpayer's total income, was temporarily raised from $1 000 to $2 500 for taxation years 1991 and 1992.

This $2 500 ceiling is extended for another year, and will therefore apply to taxation year 1993. The $1 000 ceiling will apply to the following years.

— *Extension of the deduction for convertible securities*

A new temporary deduction, at the rate of 25 % or 50 %, according to the size of the eligible corporation, was implemented for taxation years 1991 and 1992 in regard to the acquisition of an eligible convertible security. The acquisition of such a security entitles the taxpayer to a deduction in the year of its acquisition.

In general, an eligible convertible security consists of a debenture or unsecured preferred share, acquired for money, as part of an issue made by a corporation eligible for the QSSP with assets of less than $1 billion. The security must also be convertible at any time into a common share of the corporation making the issue.

To promote the issue of such eligible convertible securities, they can also be considered as eligible for QSSP contributions for taxation year 1993.

— Increased deduction for regional corporations

The rate of the deduction taxpayers may claim for shares issued by a regional venture capital corporation is raised from 125 % to 150 %. More details on this matter are provided in the "Regional economic development" section.

— Optional advance ruling in some cases of simplified prospectus

Under existing rules, when the distribution of a QSSP security is carried out in accordance with a receipt of the Commission des valeurs mobilières du Québec (CVMQ), it must be covered by a favourable advance ruling by the ministère du Revenu. A simplified prospectus issued under certain circumstances by a corporation that has already obtained a receipt must be covered by a favourable advance ruling for the issued securities to be eligible under the QSSP. This requirement of an advance ruling does not apply when a filing exemption has been obtained.

To simplify the rules, from now on the tax treatment of a simplified prospectus will be similar to a filing exemption and consequently will no longer be subject to the requirement that a favourable advance ruling be obtained from the ministère du Revenu.

This change will apply to an issue of securities beginning after the day following that of the Budget Speech.

— Improvements to QSSP investment fund (QIF) rules

• *Application of the temporary $2 500 ceiling*

The annual limit applicable to the deduction under the QSSP for shares of large corporations was raised from $1 000 to $2 500 for the years 1991 and 1992 and is extended to the year 1993 as part of this Budget Speech. Changes will be made so that this higher limit will also apply to the portion of the adjusted cost of the security issued by a QIF that relates to the part of the adjusted cost of eligible shares of large corporations held by the QIF.

• *Disposal of securities in the year of issue*

In general, the QIF is required to acquire, in the year of issue of its securities, eligible QSSP shares and to hold them on December 31 of that year. In the case of a QIF that chooses to make a commitment to invest at least 50 % of the proceeds of the issue in shares of growth corporations, this requirement applies on December 31 of the following year.

Situations beyond the control of a QIF manager may arise that force him to dispose of eligible shares before these dates. In addition, it may also be in the manager's interest to dispose of such shares in order to maximize the value of his portfolio.

To ensure that a QIF manager is not forced to adhere to the conservation of assets rule and thus is placed in a situation similar to that of an individual who purchases QSSP shares directly, the existing rules will be changed so that the QIF is authorized to acquire, in the year of acquisition of eligible securities, valid shares or other eligible shares as replacements. Valid shares are shares of growth corporations acquired on the secondary market and included on the list published periodically by the Commission des valeurs mobilières du Québec.

This "covering" procedure will facilitate QIF management. The penalties applicable when a QIF does not honour its investment commitments will be adapted accordingly.

• *Authorization of late election*

Under the existing rules, when a QIF elects to make a commitment to invest an amount equal to at least 50 % of the proceeds of the issue of its securities in securities of growth corporations, a stipulation to that effect must be made in the final prospectus or filing exemption application.

To afford the QIF manager more flexibility concerning this commitment, it will now be possible to make this election at any time in the year of issue of QIF securities and file it with the ministère du Revenu and the CVMQ no later than December 31 of the year the QIF securities are issued.

• *Effective date*

These changes will apply to QIF securities acquired following an issue for which the receipt of the final prospectus or filing exemption is granted after the day of the Budget Speech.

Cooperative Investment Plan (CIP)

The Cooperative Investment Plan (CIP) is designed to promote the growth of cooperatives by granting tax benefits to members and workers who acquire preferred units issued by an eligible cooperative i.e., in general, a cooperative other than a financial or personal services cooperative. In general, to be eligible, the preferred unit must be acquired by an individual, as first purchaser, who is a member or worker of the cooperative authorized to issue this unit. The deduction rates are as follows :

— 150 % of the cost of the unit issued by a cooperative for which the Minister of Industry, Trade and Technology has issued a certificate stating that it is a small or medium-sized cooperative, i.e. with assets under $25 million or members' equity of no more than $10 million, and acquired by a worker of the cooperative under a worker investment program ;

— 125 % of the cost of the unit issued by a cooperative other than one covered by the preceding paragraph and acquired by a worker of the cooperative under a worker investment program ; or

— 100 % of the cost of the unit in all other cases.

In a similar way to the additional deduction related to the stock ownership plan under the QSSP or under a QBIC, a worker investment program set up by a cooperative enables employees of the cooperative to acquire eligible securities and claim an additional deduction of 25 percentage points.

— Eligibility of employees of partnerships and subsidiaries of cooperatives

Changes have recently been made to the structures of the cooperative movement, particularly in the farm sector. Some cooperatives now carry out their activities by means of limited partnerships whose members are cooperatives or federations of cooperatives, or by means of incorporated subsidiaries. As a result of these structural changes, employees who were employees of cooperatives have become employees of a limited partnership or of a subsidiary of a cooperative and therefore are no longer eligible workers under the CIP.

• *Partnership of cooperatives*

Changes will therefore be made so that securities eligible for the CIP also include preferred units issued by an eligible cooperative and acquired as first purchaser by an individual who is employed by a partnership all of whose members are cooperatives or federations of cooperatives and of which the eligible cooperative making the issue of preferred units is also a member, provided, however, that a written agreement between the eligible cooperative and the partnership stipulates that the excess of the proceeds of the issue of these preferred units over the reasonable expenses incurred by the cooperative to carry out the issue will be paid to the partnership that employs the individual. For this purpose, the cooperative that undertakes the issue must obtain an eligibility certificate from the Minister of Industry, Trade and Technology stating that this condition has been met.

Furthermore, the securities of a cooperative that is a member of such a partnership will not entitle the taxpayer to the deduction rate provided for small or medium-sized cooperatives when, existing rules notwithstanding, the assets of the partnership are at least $25 million or when members' equity exceeds $10 million. Assets and equity will be determined according to rules similar to those currently used to determine the eligibility of a cooperative as a small or medium-sized cooperative, with adaptations.

Lastly, the employees of a partnership all of whose members are cooperatives or federations of cooperatives will be considered eligible workers for the purposes of a worker investment program set up by a cooperative that is a member of the partnership. The partnership must then offer the workers the opportunity to finance the acquisition of eligible securities by means of a loan, according to the terms currently stipulated by the program. The partnership may also offer employees the option of accumulating the savings required to acquire securities by means of source withholdings. An eligibility certificate from the Minister of Industry, Trade and Technology will certify that the worker investment program complies with the new criteria.

• *Subsidiary of a cooperative*

A CIP-eligible security will also include a preferred unit issued by an eligible cooperative and acquired by an individual employed by a first-tier subsidiary of which the cooperative owns, directly or indirectly, more than 50 % of the shares of the capital stock issued with unrestricted voting rights.

These individuals will also be considered eligible workers for the purposes of a worker investment program set up by the eligible cooperative. The cooperative will then have to offer employees of the subsidiary the opportunity to finance the acquisition of eligible securities by means of a loan, according to the terms currently stipulated by the program. The subsidiary may also offer employees the option of accumulating the savings required to acquire securities by means of source withholdings. An eligibility certificate from the Minister of Industry, Trade and Technology will certify that the worker investment program complies with the new rules.

• *Effective date*

These changes apply to eligible securities of cooperatives acquired after the day of the Budget Speech by workers of partnerships or subsidiaries of cooperatives that have obtained the necessary certificate from the Minister of Industry, Trade and Technology.

— Carry-forward of the unused portion of the deduction

Under existing rules, the maximum annual deduction an individual who acquires securities eligible for the CIP may claim is 10 % of his total income. The portion of the deduction in excess of this ceiling cannot be claimed in a subsequent taxation year.

A change will be made so that the unused portion of a deduction relating to the acquisition by an individual of a security eligible for the CIP can be carried forward to the next five taxation years. However, the deduction an individual may claim in a year, for securities acquired that year and in previous years, can never exceed 10 % of the individual's total income for the year when the deduction is claimed.

This change applies to eligible securities acquired as of the 1992 taxation year.

Québec Business Investment Company (QBIC)

— Restrictions on sale options for a term of less than six years

The basic objective of the Québec Business Investment Company (QBIC) program is to promote the permanent capitalization of SMBs in Québec by making it easier to raise venture capital they need to grow from financial partners which are interested in participating in their development and with which business owners are prepared to associate themselves. For this purpose, shares subscribed for by a QBIC cannot be purchased or redeemed by the corporation that receives an investment during the five-year period following the investment.

In addition, an investment by a QBIC is generally not eligible if, at the time it is made or during the subsequent two-year period, the QBIC has a non-arm's-length relationship with the eligible corporation in which it invests. Thus, a shareholder controlling the corporation that receives the investment cannot hold more than 49 % of the voting shares of the QBIC during this period of two years.

The rules concerning arm's-length relationships have, nonetheless, allowed the development of certain financial packages that encourage shareholders of a QBIC to sell their shares after the two-year period to shareholders who control an eligible corporation or a corporation controlled by them. Sale options, which can thus be exercised by shareholders of a QBIC after two years, allow business owners to indirectly redeem the investment made by the QBIC.

To consolidate the QBIC program's objective of permanent capitalization, a change will be introduced to ensure that an investment made by a QBIC is not eligible if the QBIC is not at arm's length with the eligible corporation at the time of the investment or during the five years following such investment, unless the creation of such non-arm's-length relationship is authorized by the Société de développement industriel du Québec and is designed to prevent the bankruptcy of the business. A corporation that violates this rule will incur a penalty equal to 30 % of the investment.

This measure applies to an investment made after the day of the Budget Speech, unless the investment is made no later than December 31, 1992 by a QBIC in accordance with a final prospectus or preliminary prospectus for which the receipt has been obtained no later than the day of the Budget Speech or in accordance with an application for a filing exemption submitted no later than that day.

— ***Technical clarification concerning the calculation of additional deductions***

Under existing rules, when a business receives an investment from a QBIC, the shareholders of the QBIC can claim a basic tax deduction equal to 125 % of their participation in the investment. In addition, a further deduction can be granted to shareholders of a QBIC that waives its right to deduct certain expenditures resulting from a public issue of its shares, in particular brokerage, legal and accounting fees related to the preparation of a prospectus or offering memorandum. The purpose of increasing these tax benefits is to make the QBIC vehicle more advantageous for individuals who purchase QBIC shares as part of a public issue of shares.

Moreover, a business can undertake to use all or part of the amount invested by a QBIC to finance expenditures that entitle taxpayers to research and development tax credits or Québec film and television production tax credits, and to forgo the tax benefits to which it is entitled in this regard in favour of the shareholders of such a QBIC. The shareholders of such a QBIC can then claim an additional deduction equal to 100 % of the expenditures that can be transferred to them in this way.

However, the total deductions that can be obtained in regard to a QBIC share are limited to 200 % of the proportion of such share in the QBIC's investment. Expenditures which can be forgone in regard to a QBIC share therefore correspond to the excess of this ceiling over the tax benefits to which such share otherwise entitles the taxpayer. As part of a public issue of shares, this can result in the additional deduction being reduced by the supplementary deduction related to issue costs, which does not correspond to the objective of the program.

Therefore, to achieve the tax policy's objective, the amount of the supplementary deduction for issue costs will not be taken into account in determining the maximum amount of expenditures a business can forgo in favour of shareholders of a QBIC.

This measure applies retroactively since the introduction of the supplementary deduction related to issue costs, i.e. to any investment by a QBIC made after May 2, 1991 as part of a public issue of shares of a QBIC for which the receipt for the final prospectus or filing exemption was obtained after that day.

Tax credit to increase SMB capitalization

The 1991-1992 Budget Speech introduced a tax credit to promote increased capital to assist SMBs seeking financing by issuing common shares or debentures convertible into such shares. To be eligible, a corporation's assets must be less than $25 million or its equity must be no more than $10 million. Subscription of such securities by financial institutions and certain venture capital corporations enables the corporation to claim a refundable tax credit of 24 % or 12 %, depending on whether the eligible investment is in the form of a subscription of common shares or convertible debentures. However, at least 30 % of the total amount of the eligible investment must consist of common shares of the corporation. The Société de développement industriel du Québec (SDI) must issue a certificate validating the eligible investment.

— Eligibility of convertible preferred shares

To facilitate the capitalization of a corporation eligible for this tax credit, a change is made so that an eligible investment includes an investment in the form of a subscription of preferred shares convertible into common shares, with full voting rights, of the corporation's capital stock, for the portion of the amount of the eligible investment that must not consist of common shares.

A preferred share must, under the conditions of its issue, be convertible at any time into such common shares. In addition, all rules relative to common shares, in particular concerning the redemption of shares during the period of 60 months beginning on the date of the eligible investment, will apply to eligible convertible preferred shares, with adaptations.

The rate of the tax credit for the portion of the eligible investment consisting of convertible preferred shares will be the same as that applicable to convertible debentures, i.e. 12 % of the proceeds of the issue of such shares.

This change applies to an eligible investment for which the SDI issues a certificate after the day of the Budget Speech.

Fonds de solidarité des travailleurs du Québec (FSTQ)

— Annual tax credit raised from $700 to $1 000

Québec's tax system has supported the development of the Fonds de solidarité des travailleurs du Québec (FSTQ) since it was formed and in this way promotes its mission of, notably, contributing to job maintenance and creation in SMBs in Québec.

Individuals who purchase shares of the FSTQ can claim a non-refundable tax credit equal to 20 % of the amount they pay, for this purpose, in the year or within the 60 days following the end of the year. The amount of the tax credit that can be deducted in a taxation year is limited to $700. In addition, these individuals can also claim, for federal tax purposes, a non-refundable tax credit of 20 %. Nor could this last tax credit exceed $700 prior to 1992.

In his Budget Speech of February 25, 1992, the federal Minister of Finance announced that as of taxation year 1992, the maximum tax credit that can be claimed by an individual who acquires FSTQ shares will be raised to $1 000.

To further support the development of the FSTQ, Québec's tax legislation will be amended to raise the maximum tax credit available to an individual who acquires FSTQ shares from $700 to $1 000. An individual will therefore be able to claim a tax credit of 20 % on the first $5 000 he pays in the year or during the 60 days following the end of the year to acquire such shares, with the undeducted portion available to be carried forward to subsequent years.

This measure applies as of taxation year 1992.

Other measures focusing on the competitiveness of Québec businesses

Research and development (R&D)

— Designation of new eligible university entities

Québec's tax system includes many measures to increase scientific research and experimental development (R&D) in Québec. For instance, a refundable tax credit equal to 40 % of total R&D expenditure is granted to businesses that have their research done by Québec universities, university hospital centres or certain R&D organizations recognized as eligible university entities.

The Centre de recherche en calcul appliqué (CERCA) is a new organization formed by a partnership of the École polytechnique, Concordia University, McGill University and the Université de Montréal, working in an area of research that is crucial to the development of the aerospace industry.

The Consortium de recherche sur la forêt boréale commerciale is a non-profit corporation formed at the initiative of the Université du Québec à Chicoutimi to pursue and expand the activities of that university's Groupe de recherche en productivité végétale in the area of research into the regeneration of the northern forest.

In view of their association with Québec universities, these two organizations are now recognized as eligible university entities. Eligible expenditures for scientific research and experimental development conducted by these organizations under a university research contract will therefore entitle the taxpayer to a refundable tax credit of 40 % of all such expenditures.

This measure applies to scientific research and experimental development carried out after the day of the Budget Speech and before January 1, 1996 under a university research contract signed between the day of the Budget Speech and January 1, 1994.

— New eligible public R&D centre recognized

The 1991-1992 Budget Speech introduced a new refundable tax credit of 40 % of eligible R&D expenditures for R&D carried out by an eligible public research centre under a research contract between a business and such a centre. Eligible public research centres include governmental research centres and specialized centres of colleges recognized for this purpose.

The Centre national de transport en commun (CNTC) was recently formed by a partnership of the École polytechnique, the École nationale d'aérotechnique, the Centre spécialisé de matériaux composites (Collège de Saint-Jérôme), and the Centre spécialisé de métallurgie (Collège de Trois-Rivières) and is active in the public transit equipment industry. The CNTC is recognized as an eligible public research centre. Eligible expenditures for scientific research and experimental development conducted by the CNTC under an eligible research contract will entitle the taxpayer to a refundable tax credit of 40 % of the total amount of such expenditures.

This measure applies to scientific research and experimental development carried out after the day of the Budget Speech and before January 1, 1996 under an eligible research contract signed between the day of the Budget Speech and January 1, 1994.

— New linkage agency recognized

The notion of a linkage agency was developed to allow businesses to profit more easily from tax measures related to R&D conducted by an eligible university entity or an eligible public research centre.

When the R&D is actually carried out by such an entity or centre under a research contract signed by a linkage agency on behalf of a business, the latter can claim a refundable tax credit of 40 % of all the eligible expenditure for scientific research and experimental development conducted by such entity or centre.

The Fonds pour la formation de chercheurs et l'aide à la recherche (FCAR fund), a Québec government agency whose mandate is to promote or assist research by linking universities and businesses in university industrial research projects, is recognized as a linkage agency. This recognition takes effect as of the day following the day of the Budget Speech.

— New tax credit for R&D consortia

Scientific research and experimental development involves risk both in terms of the results obtained and the commercial applications it may eventually give rise to. For this reason, businesses in the same sector of activity may find it advantageous to combine their efforts to carry out certain so-called "pre-competitive" research projects.

Many large Québec businesses that play a major role in their sector of activity have formed non-profit corporations to pool their research and development activities to maximize their chance of success and reduce their costs. These private research consortia often carry out pre-competitive scientific research and experimental development that could, if each member of the consortium were to sign a separate pre-competitive research contract for each project with the consortium, qualify for purposes of the refundable tax credit of 40 % on the entire expenditure, if the business obtained a certificate to that effect from the Minister of Industry, Trade and Technology. In addition, these research and development activities are often carried out in cooperation with universities.

In view of the importance of these large research consortia for Québec's economic development, a new refundable tax credit for scientific research and experimental development is implemented to support the activities of these centres.

In general, to be recognized for this purpose, the centre must obtain a certificate to this effect from the Minister of Industry, Trade and Technology. The first organization recognized for this purpose is the Pulp and Paper Research Institute of Canada (PAPRICAN), a non-profit research and training organization active in areas relating to the production of pulp and paper.

Forintek Canada Corp. (FORINTEK), a non-profit corporation whose mission is to promote technological advances in the Canadian wood products industry, currently has research centres outside Québec. FORINTEK is considering opening a research centre in Québec. In this context, FORINTEK will be designated a recognized R&D organization in regard to the research and development activities of its research centre in Québec once a final agreement concerning the establishment of a centre in Québec is reached.

New rules must be implemented to take into account the fact that these centres are partially financed with contributions used in part to fund scientific research and experimental development and in part to fund other expenditures that are not eligible for the R&D tax credit.

• *Recognized organization*

Except in so far as PAPRICAN and FORINTEK are concerned, to be designated a recognized R&D centre, an R&D consortium must obtain a certificate to that effect from the Minister of Industry, Trade and Technology. In particular, it must be a non-profit organization with a significant share of Québec businesses working in related activity sectors that carry out pre-competitive R&D.

• *Eligible fees*

Under the rules currently applicable to the tax credit for R&D carried out under a research contract with an eligible public research centre, for instance, expenditures eligible for this credit do not include membership fees or dues to a scientific or technical organization.

To recognize the financial structure of the new recognized R&D centres and of those designated today, new measures will be implemented so that the new refundable tax credit of 40 % can be granted to member corporations that pay fees or dues to a recognized R&D centre, in regard to the portion of the fee or dues that can be reasonably attributed to the R&D such organization carries out in Québec.

• *Eligible corporation*

The eligibility criteria of a corporation for this new tax credit will be the same as those currently applicable for purposes of the eligibility of a corporation for the tax credit for R&D carried out under a university research contract. Moreover, R&D carried out by the recognized organization must concern the business of the member corporation so that it can benefit from the said refundable tax credit.

• *Tax credit calculation*

In general, the formula will allocate to each member corporation, for purposes of calculating the new tax credit, a portion of the expenditure for the fees or dues paid to the organization. The portion of the fees or dues relating to expenditures of the organization that do not constitute R&D expenditures, notably R&D expenditures ineligible for tax purposes and administration expenditures, will not be included in the eligible expenditure for fees or dues for the purposes of this tax credit. The recognized R&D centre must provide member corporations with the information required for purposes of calculating the tax credit.

For a given taxation year of a member corporation, the fees or dues expenditure eligible for the credit will be equal to the amount obtained by multiplying the proportion determined in the following paragraph by the lesser of the expenditures for R&D made in Québec by the recognized organization during its fiscal year ending in the given taxation year or the excess of the total fees or dues of member corporations for this fiscal year over the portion of such fees reasonably attributed to expenditures other than R&D expenditures.

The proportion mentioned in the preceding paragraph is the proportion represented by the fee or dues paid by the corporation for the organization's fiscal year ending in the given taxation year of the corporation compared to all fees or dues paid by member corporations of the organization for that fiscal year.

• *Additional rules*

This new tax credit cannot be applied to reduce the tax instalments of eligible corporations relating to income tax and capital tax and the tax credit financing program administered by the SDI will not apply. Like other refundable R&D tax credits, this tax credit will not be subject to income tax. The fee or dues expenditure will therefore remain entirely deductible, regardless of this credit. In addition, the rules for the reduction of the eligible expenditure stipulated in regard to other R&D credits, notably those relating to government and non-government assistance, and to the anti-avoidance rule, will apply to this tax credit, with adaptations.

• *Research contract with a recognized R&D centre*

When a taxpayer and a recognized R&D centre sign a research contract, such contract will be similar to an eligible research contract signed with an eligible public research centre, provided the rules and conditions applicable to an eligible research contract are satisfied. Eligible expenditures for scientific research and experimental development conducted by a recognized R&D centre under such a contract will entitle the taxpayer to a refundable tax credit of 40 % of all such expenditures. However, the eligible expenditure that has entitled the taxpayer to a refundable tax credit under such a contract will not be included in the base for calculating the eligible fee or dues expenditure for purposes of the R&D contribution tax credit.

For this purpose, businesses that are parties to such research contracts will be the same as are currently accepted for purposes of an eligible research contract. Lastly, the R&D expenditures of these centres will not be able to be financed by public issues under the R&D/QSSP, R&D/VCC and R&D/QBIC vehicles.

• *Effective dates*

This measure applies to scientific research and experimental development conducted after the day of the Budget Speech and before January 1, 1996 by the recognized R&D centre in cases of R&D financed by fees or dues and, in the case of a research contract signed with a recognized R&D centre, this measure applies to scientific research and experimental development conducted after the day of the Budget Speech and before January 1, 1996, under such a contract signed between the day of the Budget Speech and January 1, 1994.

— Rules on forgoing tax credits eased

A business that wants to finance its R&D expenditures with outside capital can forgo its R&D tax credits and transfer their value to investors. This transfer allows individual investors to claim an additional deduction of 50 % or 100 % of the R&D expenditure incurred, depending on the type of tax credit forgone. This additional deduction is on top of the basic deduction the individual who invests in R&D external financing vehicles is entitled to.

As part of external financing vehicles constituted according to the rules of the Québec Stock Savings Plan (R&D/QSSP) and research and development venture capital corporations (R&D/VCC), the final prospectus or application for a filing exemption must stipulate that the corporation that benefits from this financing undertakes to forgo at least a portion of the refundable tax credit to which it would be entitled for the eligible R&D expenditures it will make. A similar undertaking must be included in a written agreement when the external financing is obtained through a Québec Business Investment Company (R&D/QBIC).

To simplify the rules and given that some businesses wish to obtain external financing without forgoing any of the R&D tax credits, this mandatory stipulation will be withdrawn, so that a corporation can finance its R&D by means of such financing vehicles without forgoing any of its tax credits. In such cases, the investor will not be entitled to any additional deduction. However, when a corporation elects to forgo a tax credit, it must specify the percentage in the final prospectus or application for a filing exemption.

These changes will apply to any issue of research and development shares as part of the R&D/QSSP, R&D/QBIC and R&D/VCC financing vehicles for which the receipt of the final prospectus or the filing exemption has been granted after the day of the Budget Speech. Similar changes will be made regarding the QSSP and QBIC financing vehicles in the area of Québec film and television production, and the effective date will be the same as for R&D.

— Clarification concerning R&D financing

The fiscal measures the government has implemented in the area of R&D are designed, in particular, to promote R&D activities in Québec by and for businesses to improve their market performance. They are also designed to intensify cooperation among businesses, eligible university entities and eligible public research centres. To ensure compliance with these objectives and the integrity of the tax rules related to R&D financing, some adjustments have been introduced to prevent such entities or centres from financing their own projects by means of tax benefits granted for R&D.

Certain measures have already been implemented to ensure that businesses are not entitled to a refundable tax credit when an eligible university entity or, as the case may be, an eligible public research centre, uses its own funds under R&D financing mechanisms, by alienating or transferring an asset. In addition, rules provide that the R&D expenditure is reduced by the amount of assistance of any kind received from a public organization.

It should be specified that fiscal policy has always been to refuse any package providing for a direct or indirect financial contribution, in particular through an investment, loan, purchase or otherwise, by an eligible university entity or an eligible public research centre, to a taxpayer who is a party to an R&D project carried out under a research contract involving an eligible university entity or an eligible public research centre.

However, representations have been made by all parties involved in R&D activities to ease the rules on research contracts and financing of R&D activities carried out by university entities and eligible public research centres. The ministère des Finances is currently studying this issue and could announce adaptations to the current rules next fall.

— Leasing assets to the entity carrying out R&D

Anti-avoidance rules currently apply to tax measures related to R&D carried out under a university research contract or a contract with an eligible public research centre. These rules provide in particular that the R&D expenditure is reduced by any profit or gain when it is reasonable to consider that the profit or gain has the direct or indirect effect of compensating or indemnifying a party to the project, or of otherwise being of benefit to him.

To ensure the integrity of these fiscal measures, for purposes of calculating, for a taxation year, a refundable tax credit for university or university hospital research or for research carried out by an eligible public research centre, when an amount is paid or to be paid to a taxpayer or a person with whom he is not at arm's length by an eligible university entity or an eligible public research centre or by a person not at arm's length with such entity or such centre, notably for the use of premises, installations or material, it had been considered, until now, that the R&D project did not satisfy the objectives of the tax policy, which rendered the entire project ineligible for the R&D tax credit. To ease these rules, henceforth, the project will be eligible, but the eligible R&D expenditure must be reduced by any such amount the taxpayer received or is entitled to receive at the time he files his tax return for the year.

This relief measure applies for an eligible expenditure made after January 1, 1992.

— Tax credit financing program extended

To complement measures that allow taxpayers to reduce their tax instalments by the amount of an R&D tax credit or training tax credit, a tax credit financing program, in the form of a loan guarantee, has been set up and is administered by the Société de développement industriel du Québec (SDI). Under the current provisions of the program, a taxpayer must submit the application for financial assistance to SDI before June 1, 1992 in order to benefit from the program. This program is extended for an indefinite period.

Improvement to the foreign tax credit rules

Federal and provincial tax laws in Canada subject to taxation all or part of the foreign-source income of a taxpayer who is a resident of Canada. Since this income is likely to be taxed abroad, foreign tax credits are granted to avoid double taxation. In addition, legislation allows a corporation to avoid losing these foreign tax credits when tax payable for a taxation year is insufficient to fully use them. The 1991-1992 Budget Speech announced, on this subject, that studies were under way to determine to what extent the application of these provisions under Québec tax legislation complies with fiscal policy.

Federal tax legislation allows a corporation to add an amount to its taxable income when its tax payable is insufficient to use foreign tax credits that would otherwise be lost. In return, an identical amount is added to losses other than capital losses, which can be used to reduce taxable income of another taxation year included in the carry-over period.

One effect of Québec's tax legislation is to require a taxpayer to include in his taxable income and in his losses other than capital losses the amounts added as such for federal tax purposes. A study of the legislation in question has identified two problems with the operation of this mechanism. First, the automatic addition, for Québec income tax purposes, of an identical amount to that chosen for federal tax purposes generally is not suitable, in view of the specific features of the Québec tax system and the various choices a taxpayer can make in the taxation year, or those he may have made before. In addition, contrary to the federal tax system, which subjects all foreign-source income to tax, the taxable income distribution formula common to all jurisdictions in Canada means that, in principle, only foreign-source income other than business income can be attributed to a province. Consequently, the Québec tax system allows corporations a foreign tax credit only for that foreign source of income, and the required addition to taxable income, if any, is generally different from the amount added for federal tax purposes. Second, the recovery of the amount added through the carry-forward mechanism for losses other than capital losses can result in a smaller reduction in tax payable in the carry-forward year compared with that resulting initially from the addition. For these reasons, the addition mechanism relating to foreign taxes is eliminated.

From now on, a corporation that is not in a position to fully claim its foreign tax credit with its tax payable for the year can use the excess in another taxation year included in a 10-year carry-over period identical to that applicable to losses other than capital losses. The value of the rebate granted in this regard will remain constant over time, regardless of the composition of the taxable income and the corporation's tax rate.

This change, which will benefit corporations, applies as of the 1990 taxation year. However, a corporation can, in spite of the corrections made, elect to apply the current addition mechanism relating to foreign taxes for taxation years 1990, 1991 and 1992.

5. Measures to manage public funds more efficiently

Reduction in operating expenditures

To implement the expenditure reductions of $150 million needed to further limit spending growth, government departments, agencies, health and social services network establishments, and establishments in the primary, secondary, college and university networks will have to take measures to reduce staff levels, payroll and other expenditures.

They will all have to reduce their salary budget and staff level by 2 % with the exception of establishments in the health and social services network, teaching staff of the education networks, and certain programs that cannot be cut back (the most important exceptions are judicial services, the Travail-Québec network, correctional services, the Sûreté du Québec, the ministère de l'Environnement, the National Assembly and persons designated by the National Assembly).

These measures are in addition to those announced when the estimates were tabled.

Other operating expenditures will have to be reduced by 2 % in health and social services network establishments and those of the elementary, secondary, college and university networks. Other operating expenditures will be cut by 3.5 % in government departments and agencies.

Funding of public sector retirement plans

The government now uses recognized methods in the accounting and valuation of its commitments to public sector retirement plans. In fact, its implementation of accounting and actuarial regulatory agency standards is among the most rigorous of all the provinces. However, its commitments are funded to a significant degree in its own operations by means of a liability account, the retirement plans account, rather than in a separate fund.

Under the current situation, the government's budgetary expenditures relating to the retirement plans are not disbursed immediately but are recorded in the non-budgetary retirement plans account. These expenditures include employer contributions for current service, amortization of unrecorded past service and interest on the balance of the non-budgetary account. The retirement plans account also receives contributions from employees covered by plans other than RREGOP. Disbursements from the account include the government's share of benefits paid under RREGOP and all the benefits under the other plans.

The balance of the retirement plans account is thus a debt owed by the government. However, its cost is higher than that of the direct debt since it is ultimately equal to the yield on the RREGOP unionized employees' fund of employees who can be unionized, managed by the Caisse de dépôt et placement du Québec.

To manage public finances more efficiently by reducing the overall cost of financing, the government intends to gradually limit financing from the retirement plans account and replace it with borrowings on financial markets. The government will seek to pay part of its contributions to the retirement plans so that they can be deposited with the Caisse de dépôt et placement du Québec, where they will earn a market return similar to that of the employees' fund.

The objective is to disburse an amount at least equal to the total of employer contributions for current service and employee contributions under all plans registered in the retirement plans account, so that all employee contributions and all government commitments relating to current service are fully capitalized outside the government's own financial transactions.

The additional amounts to be borrowed on financial markets apart from the Caisse de dépôt et placement du Québec will be less than the amounts paid. The Caisse de dépôt et placement du Québec invests a significant portion of the funds it manages in gouvernement du Québec bonds. A portion of the new funds it will receive under this measure will also be invested in these bonds.

As a result of this measure, it will be possible to reduce the government's budgetary expenditures by $1 million, $6 million and $17 million from 1992-1993 to 1994-1995.

The Commission administrative des régimes de retraite et d'assurances, formed in 1973 under the Act respecting the Government and Public Employees Retirement Plan, administers retirement and insurance plans entrusted to it by the government or legislation, and advises public and parapublic sector employers and the Minister for Administration and Chairman of the Conseil du trésor on employee benefit issues. The Commission also provides the assistance required to implement and carry out various employee benefit plans, whether for employers or the Conseil du trésor secretariat. The government pays almost all of the Commission's administration costs.

At the same time as it implements the new financing policy for its commitments to public sector retirement plans, the government intends to ensure that the costs relating to the administration of the retirement plans are borne by the plans themselves. This measure will contribute to more efficient management of public funds.

After consulting on the most appropriate way in which to proceed, the Minister for Administration and Chairman of the Conseil du trésor will table the legislation required to implement these changes.

Contribution by the Société de l'assurance automobile du Québec

The excellent performance of the Société de l'assurance automobile du Québec in recent years and the measures it has implemented, together with the government's action, have helped improve the traffic safety record in Québec and had a positive impact on the costs of the public automobile insurance plan. The Société has been able to generate, over and above the actuarial reserve needed to meet its commitments, a large stabilization reserve that, at December 31, 1991, stood at $1 373 million, or 45 % of its actuarial reserve. The Société will apply the bulk of this amount to cover future spending increases and avoid raising premiums for several years.

In the current budgetary context, and to avoid an untimely increase in taxes, the Société will pay a contribution of $275 million to the government in 1992-1993 from its stabilization reserve.

Recovery of surplus from special funds

In recent years, the government has set up a number of special funds, which constitute specific accounting entities. Under a rationalization approach drawn from practices in the private sector, these funds are accountable for their revenues and expenditures, as cost centres for internal government services or as entities responsible for commercial activities carried out within certain government departments' activities.

The results of this practice have been positive since, in addition to rationalizing certain activities, the special funds have earned surpluses that can be reallocated to finance all government programs. In 1992-1993, the surplus recovered from the special funds will amount to $25 million.

Measures to ensure the integrity of the tax system

Tax on capital

— Inclusion of bankers' acceptances in paid-up capital

In general, a corporation's paid-up capital, for purposes of the tax on capital, includes shareholders' equity and long-term debt, that is, debt with a maturity in excess of six months.

Currently, bankers' acceptances and other similar securities are not generally included in the calculation of a corporation's paid-up capital for purposes of the tax on capital, while other debts, such as those secured by an asset of the corporation, loans granted by a shareholder or another corporation, and debts outstanding for more than six months, are included. Unlike certain other debt obligations, bankers' acceptances are not deductible by the corporations that hold them.

In general, a bankers' acceptance is essentially a credit transaction by which a bank, the "acceptor", commits itself on behalf of a client, the "drawer", for a set amount by accepting a bill of exchange drawn on it by the drawer. The acceptance is issued for a fixed term, generally less than six months, with interest and costs. The drawer uses his bankers' acceptance to, for instance, pay a supplier who can hold it, use it to pay off a debt, or present it to the acceptor (the bank) for payment. The bankers' acceptance is not considered a debt as long as the acceptor has not disbursed funds that must be paid back to it.

More and more corporations are using bankers' acceptances or similar securities to finance their operations. However, agreements reached by the taxpayer and the corporation provide, in many cases, for the automatic replacement of the bankers' acceptance or other similar security, at maturity, with a new bankers' acceptance, at the same terms and conditions as the one replaced. The taxpayer therefore uses the bankers' acceptance as long-term financing and, in this way, can avoid paying tax on capital. Bankers' acceptances are included in the paid-up capital of corporations for purposes of the tax on capital levied by the Province of Ontario and of the tax on large corporations levied by the federal government.

Henceforth, bankers' acceptances, as well as any similar security, will be included in the calculation of the paid-up capital of the drawer corporation and the acquirer may consider the acceptance as a loan or advance to another corporation, subject notably to the 120-day rule applicable to commercial paper.

This measure applies to taxation years of corporations ending after the day of the Budget Speech.

— Application of the tax on capital to contributions to uninsured employee benefit plans

Under existing rules, an insurance company must, in general, pay a tax on capital equal to 3 % of premiums payable to it except in the case of life, health and disability insurance contracts, for which the applicable rate on premiums payable is 2 %.

For the purposes of this measure, an insurance company is any company carrying on an insurance business and includes any association or group of persons carrying on such a business. Similarly, the notion of premiums includes premium deposits, contributions, entry fees, amounts payable in consideration of an insurance contract and any other compensation given to benefit from an insurance contract.

Some businesses have developed uninsured employee benefit plans, which, in fact, constitute insurance plans, for the purpose of avoiding payment of the tax on capital. In order not to encourage the development of such plans and to apply the same tax treatment to all insurers, changes will be made to the tax on capital of insurance companies to cover these plans.

The notion of premiums defined in the system of tax on capital of insurance companies will be broadened to include amounts paid as contributions to an uninsured employee benefit plan. This type of plan provides, in regard to a risk, protection that could otherwise be obtained by purchasing life and health insurance, whether the benefits are partially insured or not. Consequently, such contributions paid to an insurance company will be subject to the tax.

The system of the tax on capital of insurance companies will specify that persons receiving contributions paid into an uninsured employee benefit plan who are not covered by the broadened base will be deemed to be an association or group of persons carrying on an insurance business in regard to the said contributions.

These changes will be applicable to contributions paid after the day of the Budget Speech for uninsured employee benefit plans.

— Clarification concerning the application of the tax on capital to mutual benefit societies

In general, a corporation with an establishment in Québec must pay a tax on capital. In the case of insurance companies, the tax is equal to 2 % of life, health or disability insurance premiums and to 3 % of premiums for other types of insurance.

For this purpose, an insurance company is any company that carries on an insurance business and includes any association or group of persons carrying on such a business. However, corporations exempt from income tax are generally exempt from the tax on capital. Fraternal benefit societies are not exempt from income tax on their income from their life insurance business.

Therefore, tax policy is to subject these societies to the tax on capital applicable to any life insurance business. These societies have therefore paid this tax in past years, but an ambiguity in the text of the legislation could result in their being exempted, which would be unfair to other life insurance businesses.

To ensure that the provisions of the tax on capital adequately reflect the tax treatment applicable to these societies, clarifications will be made to the legislation to ensure that they are subject to the tax on capital for premiums paid relating to a life insurance business.

This clarification will apply for a taxation year of such a society ending after the day of the Budget Speech, for premiums paid after that day.

Liability to tax of corporations not residing in Canada owning buildings in Québec

Tax legislation subjects to taxation the income of any corporation that has an establishment in Québec during a taxation year. The expression establishment is defined in the Taxation Act, but does not explicitly cover the case where a non-resident corporation owns a rental building in Québec and operates this building through a manager, which raises certain interpretation problems.

The current wording of the Act could be an incentive to tax evasion. Consequently, the legislation will be amended to confirm that corporations not residing in Canada that own rental buildings in Québec are subject to income tax and the tax on capital.

This change applies to corporations whose fiscal year ends after the day of the Budget Speech.

New rules concerning the registration of tax shelters

Since June 1, 1990, a person who, in the course of carrying on a business, issues or sells units in a tax shelter, or promotes its issue, sale or acquisition, or acts as agent or advisor concerning these activities, is required by the tax legislation to apply to the ministère du Revenu for a registration number for the tax shelter. A fee of $200 has been required for applications received since April 1, 1992. A penalty applies to a developer who sells a unit in a tax shelter before a registration number has been assigned. Nor can a taxpayer claim or deduct an amount for a tax shelter unless he provides the ministère du Revenu with the shelter's registration number.

— Information conveyed to the CVMQ

To help the Commission des valeurs mobilières du Québec (CVMQ) carry out its public information mandate and to support it in this regard, changes have been made to the tax shelter registration number application form so that the information contained on the form can be forwarded to the CVMQ.

— Units acquired outside Québec : requirements eased

When an investment of units in a tax shelter is made on a scale that exceeds Québec, situations may arise in which a taxpayer acquires such a shelter while the promoter has not obtained a registration number in Québec.

To avoid penalizing certain taxpayers, the current requirement concerning the registration number assigned by the ministère du Revenu will apply only to an individual who resided in Québec at the time he acquired a unit in a tax shelter. Other taxpayers otherwise subject to tax in Québec, in particular an individual who did not reside in Québec at the time he acquired such a unit, can enjoy the tax benefit associated with the acquisition of this unit provided they supply the ministère du Revenu with either the registration number it assigned or the registration number assigned by Revenue Canada.

Existing administrative measures will be adjusted, in view of this easing of the requirement, so that, notably, a promoter is not required to make an information statement in regard to a purchaser who is not required to provide the ministère du Revenu with a registration number, and a penalty is not imposed on a promoter provided he sells or issues a unit without a registration number being assigned by the ministère du Revenu when the purchaser is not required to provide such number.

These changes apply in regard to units in a tax shelter acquired after May 31, 1990.

Amounts payable retained by the government

Currently, the government may pay, for instance, a grant to a taxpayer without taking into account the fact that the latter may owe a debt to the Minister of Revenue. So that the Minister of Revenue can recover tax debts due by deducting such debts from amounts the government otherwise owes a taxpayer, a measure will be implemented to enable the Minister to demand that the amount owed be withheld, by means of deduction or compensation, from any amount payable by the government or one of its agencies, or which may become payable, to the taxpayer. The Minister of Revenue will reach agreements to this effect with government organizations to facilitate the administration of this measure.

In this way, taxpayers who pay their taxes on time will not have to bear the additional tax burden stemming from the non-payment of taxes by some taxpayers.

This measure will apply as of the day after the day of the Budget Speech.

Clarifications concerning the recovery of a debt from a taxpayer or an agent

Currently, when a change is made to a taxpayer's or agent's tax debt, other than through a payment, the ministère du Revenu must adjust the recovery measures, which sometimes involves additional costs.

A technical change will be made to Québec's tax legislation so that a recovery measure taken by the ministère du Revenu to obtain payment of a taxpayer's or an agent's debt remains valid and operative, in spite of any change made to the debt, up to the lesser of the original amount of the debt and the new amount of the debt.

This measure will apply to a change in a tax debt after the day of the Budget Speech.

6. Other measures

Adjustment to improve the base of payments in lieu of property taxes

Current property tax system for businesses operating a gas distribution or telecommunications network

The Act respecting municipal taxation provides for a special tax system for businesses that operate electricity or gas distribution networks or telecommunications networks. Essentially, under this special system, some immovables are entered on the assessment roll and therefore subject to local property tax, while others are not. The presence of these immovables, including those that are not entered on the roll, is related to the consumption of services provided by local authorities. That is why the ministère du Revenu levies a tax on gross taxable income, in lieu of property tax, on behalf of the ministère des Affaires municipales for redistribution among the municipalities.

The purpose of this approach is to remedy the problems encountered by local authorities and businesses in property assessment of immovables making up a distribution network. While they do have the advantage of forming a more acceptable tax base than the result of having to assess property such as poles, cables, conduits, etc., the existing rules have been interpreted in various ways, notably for gas distribution or telecommunications networks. These differences in point of view essentially involve the definition of the operations of the businesses directly linked to the operation of the network.

Objectives of an alternative tax base

The proposed changes are designed to clarify and set out the components of the tax base so that only activities directly linked to the operation of a network are subject to tax.

The government wants to ensure that there is no overall increase in the tax burden on businesses, and that municipalities obtain revenues equivalent to those produced by the existing tax base.

Foundations of the new tax base

For the purposes of estimating the value of fixed assets of networks, the net business income for tax purposes can provide an acceptable indicator provided certain adaptations are applied so that it resembles the concept of cash flow.

First, the data used to establish the value of capital assets of a distribution network must not include revenue items that cannot be reasonably related. In particular, that applies to investment income.

Interest and other financial costs should not be taken into consideration in setting the value of a capital asset. If that were the case, this value would depend on the owner's financing decisions. In property taxation terms, it would not be appropriate for the tax levy to depend on an owner's decision to base his financing strategy on internal funds or funds from outside the business.

Lastly, depreciation should not be included since it does not represent a cash flow.

New tax base

Schematically, the new tax base applicable to persons that operate a gas distribution or telecommunications network in Québec is as follows:

ITEMS TAKEN INTO ACCOUNT	
• Eligible business income from the operation of a gas distribution or telecommunications network	
• Plus:	— Capital cost allowance
	— Interest and other financial costs
• Less:	— Net income deemed received from the sale or lease of equipment not linked to the network
	— Net income deemed received from rental of time or space for advertising purposes
Result:	Taxable income under the new tax base

In general, eligible business income from the operation of a gas distribution or telecommunications network corresponds to the concept of eligible business income used for corporate income tax purposes, with the exception of three items.

First, it covers any person who operates such a network in Québec regardless of its legal organization, and not only corporations.

Second, since the exercise consists in determining a tax base with a view to establishing a tax in lieu of property taxes, such a tax incorporated into the business's results cannot be used in calculating taxable income under the new tax base.

Third, when the same person simultaneously operates a distribution network and carries out other activities, only the portion of revenues and costs reasonably attributable to the sale of non-liquified gas to consumers in Québec or to the operation of a telecommunications network must be taken into consideration. Such a case may require a fair allocation of certain general expenses to the financial data relating to the operation of a network, as well as certain adjustments to the price of internal transfers or transfers between related persons to reflect the real decrease in economic resources for the entity.

For the reasons mentioned above, once the business income from the operation of a network is established, any capital cost allowance and any terminal loss used to reduce this income must be added. This also applies to interest and other financial costs.

Certain additional sources of income cannot reasonably be directly associated with the value of a network. Such is the case with the sale and rental of assets not related to the operation of a network. This also applies in the particular case of a person who operates a telecommunications network to income from the rental of time and space for advertising purposes. Therefore, deductions will be allowed against the total of the first three components of the new tax base, i.e. eligible business income from the operation of a network, the capital cost allowance, and interest and other financial costs. In the interests of simplicity, these deductions will be allowed in proportion to the gross income from these sources compared with the total gross income used to determine the eligible business income from the operation of a network.

Geographic limits

To achieve a fair distribution of the tax base among jurisdictions, the current regulations provide that a tax reduction is applicable to a person who operates a network that is not confined to Québec. When part of the taxable income cannot be specifically attributed to a jurisdiction, that component is deemed to be attributed to that jurisdiction on the basis of the proportion that the gross taxable income attributed represents compared with total gross taxable income.

A similar regulation will be passed so that the tax payable is reduced in proportion to the gross income reasonably attributable to other jurisdictions compared with total gross income attributed to these jurisdictions and to Québec.

Applicable rates

The tax rates applicable to taxable income under the new tax base are:

Activity sector	Rates %
Gas distribution	
Portion of taxable income up to $5 million	2
Portion of taxable income over $5 million	5
Telecommunication other than cable network	
Portion of taxable income up to $35 million	3.5
Portion of taxable income over $35 million	11
Cable network	
Portion of taxable income up to $5 million	2
Portion of taxable income over $5 million	8

Effective date

This adjustment to the tax base of businesses operating a distribution network, which is in lieu of property taxes deductible for income tax purposes by the businesses concerned, applies to persons who operate a gas distribution or telecommunications network in Québec as of a taxation year ending after the day of the Budget Speech.

Possibility of using funds held in an RHOSP to purchase furniture

Currently, an RHOSP beneficiary can withdraw funds accumulated in the plan tax free to purchase an owner-occupied dwelling. In addition, withdrawals in 1991 by the beneficiary of an RHOSP for the purpose of purchasing, during that year, new household furnishings as understood in the Retail Sales Tax Act were also tax-free, provided the goods so acquired were delivered no later than February 29, 1992 and paid for no later than July 1, 1992.

To continue assisting the furniture industry and its employees, this measure is extended indefinitely. An RHOSP beneficiary will therefore be able to make tax-free withdrawals, during a year, from his RHOSP provided he applies the full amount of the withdrawal to purchase new household furnishings that are delivered before the 60th day following the end of that year.

This measure applies to funds withdrawn from RHOSPs for this purpose after December 31, 1991.

Application of social security agreements

Currently, an employer who pays a salary to an employee who reports for work in one of his establishments in Québec must pay, in this regard, a contribution to the Health Services Fund. To increase manpower mobility, the Québec government has concluded social security agreements with governments of many foreign countries.

Under these agreements, the salary paid by a foreign employer who temporarily seconds employees to Québec can, under certain conditions, remain subject to the various social security contributions stipulated by the legislation in their country, as if the work had been done there and not in Québec. The competent authorities in their country thus issue a contribution certificate. These contributions may include an employer contribution to finance the public health insurance plan. Under these circumstances, to prevent double taxation, the Québec government does not collect the payroll tax if the social security agreement was concluded before May 3, 1991.

To encourage new social security agreements, this measure will be extended to agreements reached after May 2, 1991 concerning salaries paid after that date.

Changes will be made to Québec's tax legislation to ensure that a Québec employer who seconds personnel to another country that has signed a social security agreement with Québec that provides for reciprocal health insurance plan coverage pays an employer contribution to the Health Services Fund when the agreement continues to subject the salary paid to such personnel to Québec legislation.

These last changes apply to salary paid after the date of the Budget Speech.

Capital tax exemption threshold raised

Currently, a corporation with an establishment in Québec at any time during a taxation year must pay a tax on its capital. However, a corporation that has not carried on a business in Québec during a year and whose total assets do not exceed $1 000 is exempted from this requirement. On the other hand, corporations with total assets between $1 000 and $30 000 must pay the minimum amount of tax.

The amount of the maximum limit of $1 000 has been in force since 1981. To recognize the current value of a corporation's assets, the threshold at which these assets are subject to the tax on capital is increased to $5 000.

This measure applies to corporate taxation years ending after the day of the Budget Speech.

Extension of deadline by which forest producers must file for property tax refunds

In general, forest producers are entitled to a partial refund of the property taxes they have paid. In the case of a forest producer who is an individual, the refund application must be sent no later than April 30 of the year following the end of the municipal fiscal period.

A person who resides in Québec and lives in a dwelling, at the end of the year, which he or his spouse owns, leases or sub-leases, may be entitled to a property tax refund, provided he files an application to that effect no later than April 30 the following year. However, if it was impossible for the applicant to meet this deadline, an application can be submitted within the following 12 months, i.e. no later than the following April 30.

To enable a forest producer, who is required to submit his application for a property tax refund no later than April 30 of the year following the end of the municipal fiscal period, to enjoy the same relaxation of the filing requirement, a change will be made so that he will now be granted an additional period of 12 months by the Minister of Revenue if he demonstrates that it was impossible for him to file his application for refund by the normal deadline.

This measure applies to applications for property tax refunds filed by a forest producer after the day of the Budget Speech.

Adaptation of tax laws to the reformed Civil Code

The National Assembly has passed a bill instituting a new Civil Code that is better adapted to current social and economic realities. The new Civil Code will become effective on a date to be determined by the government. In this regard, a bill will be tabled in the National Assembly to adapt the tax legislation and regulations to the new notions stemming from the bill.

One of the changes that this bill will introduce concerns the tax treatment of interest income from the contingency fund which, in accordance with the Québec Civil Code, a condominium corporation must set up to cover the cost of future major repairs and the cost of replacing the common areas of a building. Under the former Civil Code, interest income from such a fund could not be considered income belonging to the condominium corporation and, consequently, was exempt from income tax. The new Civil Code provides that the condominium corporation will have legal personality and will own this fund.

Under existing tax legislation, interest received by a person is taxable. On an administrative basis, the federal tax authorities maintain that the income from a contingency fund set up by a condominium corporation is not taxable, provided the fund is not unreasonably large in relation to the purpose for which it is set up.

Changes will therefore be made to Québec's tax legislation so that the tax treatment of interest income from a contingency fund will, given the same conditions and restrictions, be identical for federal and Québec tax purposes.

7. Harmonization with federal tax laws and regulations

1992-1993 federal Budget Speech

On February 25, 1992, the federal Minister of Finance tabled in the House of Commons a Notice of Ways and Means Motion to Amend the Income Tax Act. Québec's tax laws and regulations will be amended to better harmonize the federal and Québec tax systems. These harmonization measures will only be adopted, however, after any federal law resulting from this Notice has been assented to, and will be applicable on the same dates as they are applied for federal tax purposes. These concordance measures are listed below.

However, some measures have been rejected because Québec's tax system does not contain corresponding provisions. In particular, this applies to the measure concerning the reduction in the tax rate on manufacturing and processing profits (BR 11)*, labour-sponsored venture capital corporations, except for the Fonds de solidarité des travailleurs du Québec (BR 12 in part)*, the individual surtax (BR 18)*, and the withholding tax reduction on dividends paid to non-residents (BP, pp. 151 and 152)**. Other provisions have not been retained because Québec's tax system is satisfactory in this regard. This applies to measures concerning the education tax credit (BR 8)*, the provision concerning the transfer of tuition fees and education tax credits (BR 9)* and the measures related to the new child tax benefit (BR 10)*. Concerning the latter subject, the chapter entitled "Improving the tax system pertaining to individuals and providing assistance for families" gives more details.

Decisions concerning the measures relating to the rationalization of the administration of research and development tax credits (BP, pp. 154-156)** and those concerning the taxation of life insurance in Canada (BP, pp. 162-165)** will be announced once the details of the changes implemented by the federal Minister of Finance have been studied.

Harmonization measures

Québec's tax legislation and regulations will be amended to include the following federal measures, adapted on the basis of their general principles, relating to:

(Measures previously announced in press releases issued by the Minister of Finance of Québec)

1. the use of funds accumulated in a registered retirement savings plan (RRSP) to purchase a home (BR 14)* (92-3)***;

2. the small business financing program (BR 1)* (92-3)***;

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* References in parentheses refer to the budgetary resolution corresponding to the Notice of Ways and Means Motion to Amend the Income Tax Act tabled on February 25, 1992.

** References in parentheses represent the pages of the February 25, 1992 Budget Papers where the measure is described.

*** References in parentheses refer to the number of the ministère des Finances du Québec Information Bulletin.

3. postponement of pension plan contribution limits (BR 16)* (92-3)***;

4. the inclusion of disability pensions received under the Canada Pension Plan or the Québec Pension Plan in calculating earned income for the purposes of contributions to an RRSP (BR 13)* (92-3)***;

5. the calculation of interest on tax refunds (BR 17)* (92-6)***;

(Measures for which harmonization is announced today)

6. the deduction for adapting a building to the needs of handicapped persons[1] (BR 2)*;

7. the increase in child care expenses[1] (BR 3)*;

8. measures relating to the capital gains exemption (BR 4)*;

9. the measure relating to cumulative net investment losses (BR 5)*;

10. the provision relating to the $100 000 lifetime exemption (BR 6)*;

11. the expansion of the list of eligible medical expenses[1] (BR 7)*;

12. the increase in the maximum annual tax credit for investors in the Fonds de solidarité des travailleurs du Québec[2] (BR 12a in part)*;

13. the provisions relating to registered retirement income funds (BR 15)*; and

14. measures concerning the recognition of common-law spouses[1] (BR 19)*.

**** References in parentheses refer to the number of the federal Department of Finance press release.

1. See chapter 1, "Improving the tax system pertaining to individuals and providing assistance for families", for more details on this subject.
2. See chapter 4, "An even more prosperous Québec in the future", for more details on this subject.

Press releases issued by the federal Minister of Finance

Depreciation of equipment owned by trucking or rail transport businesses

Last December 6, the federal Minister of Finance announced in a press release (91-133)**** certain fiscal and budgetary measures notably designed to support the truck transport and rail transport industries.

The federal Minister of Finance announced that the rate of depreciation for tractors and heavy trucks used to transport freight, purchased after December 6, 1991, would be raised from 30 % to 40 %. It was also announced that the rate of depreciation on rail cars, railroad tracks, embankments, traffic control and signal equipment, bridges, tunnels, culverts and trestles associated with railroad tracks would be raised from 7 % to 10 % in the case of rail cars and from 4 % to 10 % in the case of the other assets mentioned. These increased depreciation rates also apply to purchases made after December 6, 1991.

In this regard, Québec's tax legislation and regulations will be amended to integrate, on the basis of their general principles, these federal measures. These concordance measures will only be adopted, however, after any federal law resulting from this press release has been assented to, and will be applicable on the same dates as they are applied for federal tax purposes.

Moreover, the federal government then implemented an interim rebate on the federal diesel and aviation fuel excise tax as compensation for losses businesses could otherwise use to reduce their income tax payable. The compensation mechanism stipulated depends notably on an addition to the calculation of the income of the business claiming a partial refund of the tax.

No measure similar to this federal rebate will be implemented under Québec's tax system. Consequently, an amount added for purposes of calculating the federal income tax of a transport business benefiting from this rebate must not be included in calculating its income for Québec tax purposes. Finally, the excise tax refund obtained as compensation for losses will not reduce the eligible expenditure deductible, nor will it constitute a taxable amount under Québec's tax legislation.

Tax treatment of certain debts

On July 22, 1991, the federal Minister of Finance issued a press release (91-077)**** announcing the publication of a draft bill specifying the tax treatment applicable to certain long-term debts for which a significant proportion of the principal is repaid during the initial years in the form of interest prepayments for subsequent years.

On October 16, 1991, the Minister issued a press release (91-104)**** announcing the publication of a draft bill and draft regulations concerning the tax treatment of certificates of indebtedness for which the amount due at maturity can be adjusted according to changes in the purchasing power of money.

Québec's tax legislation and regulations will be amended to integrate, on the basis of their general principles, the federal tax measures in this regard. These concordance measures will only be adopted, however, after any federal law or regulation resulting from this press release has been assented to, and will be applicable on the same dates as they are applied for federal tax purposes.

Changes applicable to the accumulated funds of certain life insurance policies

On March 26, 1992, the federal Minister of Finance issued a press release (92-028)**** announcing the publication of a draft amendment to the income tax regulations concerning the annual exemption applicable to income accumulated under a life insurance policy.

Québec's tax regulations will be amended to integrate, on the basis of their general principles, the federal tax measures in this regard. These concordance measures will only be adopted, however, after any federal regulation resulting from the draft amendment has been assented to, and will be applicable on the same dates as they are applied for federal tax purposes.

Measures relating to tax assistance for retirement savings

On July 22, 1991 and November 22, 1991, the federal Minister of Finance issued press releases (91-083 and 91-122)**** announcing the recognition of certain bonds as eligible investments for RRSP purposes.

These measures will also be applied to Québec's tax system.

Other harmonization measures

Tax system relating to retirement compensation arrangements

As part of the reform of tax assistance for retirement savings, changes have been made to the tax treatment of retirement compensation arrangements.

A retirement compensation arrangement is a plan or mechanism under which an employer pays contributions to a depositary so that benefits are granted to an employee or another person when the employee retires or stops working. These arrangements, which in fact constitute retirement plans that do not satisfy the requirements for a registered retirement plan for tax purposes, are subject to special rules.

In addition, to ensure that such retirement compensation arrangements are not used unduly for the sole purpose of deferring taxes, the federal government collects a refundable 50 % tax on all contributions to these retirement funds as well as on the income accumulated in them each year. This tax is repaid to the fund when benefits are paid to the employee, the amounts then being subject to tax in the hands of the employee.

In view of this special tax, employer and employee contributions to these retirement funds are deductible for federal income tax purposes. For Québec income tax purposes, only the employer contributions are deductible since no such special tax is collected by the Québec government, which can cause problems for businesses and taxpayers, since the two tax systems are not harmonized in this regard.

Therefore, to resolve these problems and simplify the application of the tax system, the Québec government expects to reach an agreement with the federal government to the effect that a part of the 50 % tax collected by the federal government will be paid to Québec. The Québec government will, however, undertake to repay to the federal government amounts received when benefits are paid under a retirement compensation arrangement to beneficiaries, up to the amount received from the federal government in this regard.

Subject to the signing of such agreement, Québec's tax legislation will be amended to allow the deduction of employee contributions for the 1992 and subsequent taxation years.

Exemption of certain international shipping and air transport corporations from the tax on capital

Currently, the Québec and federal tax systems exempt from income tax income earned in Canada by a non-resident from international shipping or air transport operations. The federal legislation also exempts non-resident corporations operating such a business from the tax on large corporations that largely corresponds to the tax on capital levied under Québec's tax system.

To promote the development of such businesses in Québec, and to take the international competition specific to this sector into account, Québec's legislation relating to the tax on capital will be amended to integrate, with adaptations to the specific principles of Québec's tax system, more particularly the different taxation criteria in Québec, the exemption stipulated in the federal tax legislation in this regard.

This measure applies to taxation years of a corporation ending after June 30, 1989.

8. Summary of financial impact of fiscal and budgetary measures

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES
1992-1993 BUDGET SPEECH
(in millions of dollars)

	Impact on tax burden and disposable income		Financial impact for the gouvernement du Québec		
	1992	1993	1992-1993	1993-1994	1994-1995
MEASURES HAVING AN IMPACT ON REVENUE					
1. Improving the tax system pertaining to individuals and providing assistance for families					
Indexation of tax system and family allowances	—	– 158	– 27	– 117	– 174
Allowances for newborn children	– 5	– 7	– 7	– 7	– 7
Increase in the child care expense deduction	—	– 3	—	—	– 3
End to taxation of federal family allowances, which are integrated into new federal child benefit	—	– 70	– 1	– 9	– 65
Adults housing direct ascendants	– 22	– 22	—	– 22	– 22
Tax status of common-law spouses	—	– 30	– 2	– 10	– 30
Sub-total	**– 27**	**– 290**	**– 37**	**– 165**	**– 301**
2. Consumption tax reform					
Sales tax	– 188	– 205	– 272	– 305	– 337
Corporate taxes	101	259	152	259	297
Refundable QST tax credit	22	46	—	22	46
Compensation to municipalities for the elimination of duties on amusements	—	—	– 6	– 13	– 13
Sub-total	**– 65**	**100**	**– 126**	**– 37**	**– 7**
3. Economic recovery					
Flowthrough shares	—	– 3	—	—	– 3
Fuel tax in regions	– 1	– 1	– 1	– 1	– 1
Sub-total	**– 1**	**– 4**	**– 1**	**– 1**	**– 4**
4. An even more prosperous Québec in the future					
Worker participation in improving business results	—	– 9	—	– 4	– 12
Manpower training	—	– 30	—	– 30	– 30
Incorporation of professionals	—	– 31	—	– 41	– 63
Venture capital	—	– 19	—	– 4	– 20
Worker venture capital fund	– 3	– 3	—	– 3	– 3
Sub-total	**– 3**	**– 92**	**—**	**– 82**	**– 128**
5. Measures to manage public funds more efficiently					
Tax on capital	21	26	33	33	33
Fees	27	86	89	136	161
SAAQ contribution	—	—	275	—	—
Recovery of surplus from special funds	—	—	25	—	—
Miscellaneous	3	3	3	3	3
Sub-total	**51**	**115**	**425**	**172**	**197**
6. Other measures	**—**	**—**	**—**	**—**	**—**
7. Harmonization with federal tax laws and regulations	23	66	– 2	23	66
TOTAL IMPACT OF MEASURES ON REVENUE	**– 22**	**– 105**	**259**	**– 90**	**– 177**

Figures have been rounded off. A negative entry indicates a reduction in the tax burden, or an increase in disposable income and a cost to the government.

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES
1992-1993 BUDGET SPEECH
(in millions of dollars)

	Impact on tax burden and disposable income		Financial impact for the gouvernement du Québec		
	1992	1993	1992-1993	1993-1994	1994-1995
MEASURES HAVING AN IMPACT ON EXPENDITURE					
1. Improving the tax system pertaining to individuals and providing assistance for families					
Indexation of EI and PWA program scales	—	– 47	– 12	– 49	– 49
Enhancement of housing assistance	—	– 8	– 2	– 8	– 10
Sub-total	**—**	**– 55**	**– 14**	**– 57**	**– 59**
2. Consumption tax reform					
Changes to estimates for health and education networks	—	—	20	32	32
Compensation of EI and Financial Support program beneficiaries	6	12	9	12	13
Sub-total	**6**	**12**	**29**	**44**	**45**
3. Economic recovery					
Supporting the recovery throughout Québec					
— Program to support the recovery in SMBs	—	—	—	– 1	– 1
— Rental Building Renovation Program	—	—	– 5	– 22	– 6
— Special works program for the local road network	—	—	– 35	—	—
— Renovation of reception and accommodation centres	—	—	– 1	– 7	– 17
Regional economic development					
— Creation of a network of regional investment corporations	—	—	– 1	– 2	– 2
— Support for technological innovation and automation	—	—	– 14	– 16	– 17
— Support for entrepreneurship	—	—	– 2	– 3	– 3
— Forestry job creation program	—	—	– 7	—	—
— Employment in Gaspésie and Îles-de-la-Madeleine	—	—	– 6	—	—
Sub-total	**—**	**—**	**– 71**	**– 51**	**– 46**
4. An even more prosperous Québec in the future					
The school drop-out problem	—	—	– 30	– 42	– 42
Cultural initiative projects in cooperation with municipalities	—	—	– 5	– 5	– 5
Sub-total	**—**	**—**	**– 35**	**– 47**	**– 47**
TOTAL IMPACT OF MEASURES ON EXPENDITURE	**6**	**– 43**	**– 91**	**– 111**	**– 107**
5. Measures to manage public funds more efficiently					
Reduction of operating expenditures	—	—	150	150	150
Funding of public sector retirement plans	—	—	1	6	17
Expenditures in health and social services sector	—	—	135	211	211
Sub-total	**-**	**-**	**286**	**367**	**378**
NET IMPACT OF MEASURES ON EXPENDITURE	**6**	**– 43**	**195**	**256**	**271**
NET IMPACT OF FISCAL AND BUDGETARY MEASURES	**– 16**	**– 148**	**454**	**166**	**94**

Figures have been rounded off. A negative entry indicates a reduction in the tax burden, or an increase in disposable income and a cost to the government.

APPENDIX B

Medium-Term Outlook for the Québec Government's Financial Position

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Introduction

This appendix reviews the Québec government's medium-term budgetary and financial objectives and the measures adopted to achieve them. It also makes it possible, given the economic hypotheses and the fiscal and budgetary policies announced in this Budget Speech, to assess changes in the government's revenue, expenditure, deficit and net financial requirements, along with the main financial indicators.

Summary of financial transactions

The 1992-1993 Budget Speech has been prepared in the context of a nascent economic recovery. However, the sluggish economy continues to affect government spending while the easing off of inflationary pressures is reducing growth in own-source revenue. As was the case during the two preceding fiscal years, the deficit in fiscal 1992-1993 to 1994-1995 has been established taking into account the economic situation.

In 1992-1993, the deficit will total $3 790 million, a drop of $405 million in relation to 1991-1992. In light of the effect of the economic situation on revenue and expenditure, this figure is $1 310 million higher than the forecast for 1992-1993 indicated when the 1991-1992 Budget Speech was tabled. Because of rigorous management of spending and the economic recovery, the deficit in 1993-1994 and 1994-1995 should continue to fall, to $3 260 million and $2 750 million, respectively. This strategy will enable the government to move closer to its objective of balancing the current account while sustaining the economic recovery.

SUMMARY OF FINANCIAL TRANSACTIONS
(in millions of dollars)

	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992	1992-1993	1993-1994	1994-1995
Budgetary transactions									
Own-source revenue	19 474.9	21 939.3	23 329.0	24 316.6	25 991.4	27 790.5	29 028.0	31 287.0	33 198.0
Federal transfers	5 872.1	6 175.9	6 450.5	6 740.9	7 015.0	6 731.0	7 885.0	7 499.0	7 401.0
Revenue	25 347.0	28 115.2	29 779.5	31 057.5	33 006.4	34 521.5	36 913.0	38 786.0	40 599.0
Expenditure	– 28 166.2	– 30 489.4	– 31 392.7	– 32 716.9	– 35 831.2	– 38 716.5	– 40 703.0	– 42 046.0	– 43 349.0
Deficit	**– 2 819.2**	**– 2 374.2**	**– 1 613.2**	**– 1 659.4**	**– 2 824.8**	**– 4 195.0**	**– 3 790.0**	**– 3 260.0**	**– 2 750.0**
Non-budgetary transactions									
Investments, loans and advances	– 379.7	– 680.3	– 669.5	– 515.7	– 458.1	– 421.0	– 432.0	– 1 078.0	– 1 138.0
Retirement plans account	1 354.8	2 203.0	1 634.0	1 163.8	1 873.7	1 928.0	1 828.0	1 995.0	2 169.0
Allowance for water purification	9.8	12.2	14.9	– 3.6	—	21.0	18.0	15.0	43.0
Other accounts	96.8	– 526.8	– 370.6	198.6	– 72.9	– 8.0	– 174.0	48.0	– 44.0
Surplus	**1 081.7**	**1 008.1**	**608.8**	**843.1**	**1 342.7**	**1 520.0**	**1 240.0**	**960.0**	**1 030.0**
Net financial requirements	**– 1 737.5**	**– 1 366.1**	**– 1 004.4**	**– 816.3**	**– 1 482.1**	**– 2 675.0**	**– 2 550.0**	**– 2 280.0**	**– 1 720.0**

Results are shown on the basis of the budgetary and financial structure in force during fiscal 1992-1993.

Net financial requirements should decrease to $2 550 million in 1992-1993 and drop more significantly in 1993-1994 and 1994-1995, to $2 280 million and $1 720 million, respectively.

Budgetary revenue

The government's budgetary revenue, which consists of own-source revenue and federal government transfers, will increase by 6.9 % in 1992-1993.

Own-source revenue

Own-source revenue will rise by 4.5 % in 1992-1993, while growth in gross domestic product will reach 3.3 %. This result is attributable, among other things, to the impact of measures on non-fiscal revenues, including the $275 million contribution from the stabilization fund of the Société de l'assurance automobile du Québec. These measures will offset less rapid increases in taxes, particularly personal income tax, resulting from reduced inflationary pressures. Higher growth in own-source revenue in 1993-1994 and 1994-1995 essentially reflects anticipated growth in the economy.

BUDGETARY REVENUE
(in millions of dollars)

	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992	1992-1993	1993-1994	1994-1995
Own-source revenue	19 474.9	21 939.3	23 329.0	24 316.6	25 991.4	27 790.5	29 028.0	31 287.0	33 198.0
% change	9.7	12.7	6.3	4.2	6.9	6.9	4.5	7.8	6.1
Federal transfers	5 872.1	6 175.9	6 450.5	6 740.9	7 015.0	6 731.0	7 885.0	7 499.0	7 401.0
% change	– 5.6	5.2	4.4	4.5	4.1	– 4.0	17.1	– 4.9	– 1.3
Budgetary revenue	25 347.0	28 115.2	29 779.5	31 057.5	33 006.4	34 521.5	36 913.0	38 786.0	40 599.0
% change	5.7	10.9	5.9	4.3	6.3	4.6	6.9	5.1	4.7
GDP growth rate in % *	8.8	10.4	9.4	5.4	2.9	1.3	3.3	7.0	6.0

* For the calendar year ending three months before the end of the fiscal year.

Federal transfers

Federal transfers should increase by 17.1 % in 1992-1993; this growth rate is attributable to a large extent to payments to be made in 1992-1993 with respect to previous years. On an accrual basis, i.e. when the amounts received are attributed to the appropriate year, federal transfers will increase by 8.0 % in 1992-1993.

FEDERAL TRANSFER REVENUE
(in millions of dollars)

	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992	1992-1993	1993-1994	1994-1995
Cash basis	5 872.1	6 175.9	6 450.5	6 740.9	7 015.0	6 731.0	7 885.0	7 499.0	7 401.0
% change	– 5.6	5.2	4.4	4.5	4.1	– 4.0	17.1	– 4.9	– 1.3
Adjustments to attribute amounts received to the appropriate year	203.4	253.2	241.1	– 434.2	– 76.7	355.0	– 231.0	26.0	– 1.0
Accrual basis	6 075.5	6 429.1	6 691.6	6 306.7	6 938.3	7 086.0	7 654.0	7 525.0	7 400.0
% change	0.5	5.8	4.1	– 5.8	10.0	2.1	8.0	– 1.7	– 1.7
Less : impact of technical changes announced in January 1992									
• Equalization	—	—	—	—	—	—	70.0	76.0	81.0
• Established Programs Financing (EPF)	—	—	17.8	47.3	45.5	17.4	—	—	—
Less : cost of ceiling	—	—	– 283.9	– 808.6	– 741.3	– 188.1	—	—	—
Accrual basis excluding impact of technical changes and cost of ceiling	6 075.5	6 429.1	6 957.7	7 068.0	7 634.1	7 256.7	7 584.0	7 449.0	7 319.0
% change	0.5	5.8	8.2	1.6	8.0	– 4.9	4.5	– 1.8	– 1.7

However, to ascertain growth in federal transfers in 1992-1993 on a comparable basis, it is necessary to exclude the impact of the measures announced last January by the federal government in conjunction with the renewal of fiscal arrangements for the period 1992 to 1994. First, a change was made in Established Programs Financing (EPF) in order to rectify a technical anomaly.[1] As a result of this correction, Québec will receive $128 million with respect to the years 1988-1989 to 1991-1992.

1 The revenue the provinces derive from the fiscal transfer to EPF (13.5 basic federal tax points and 1 point of corporate taxable income) are part of the revenues subject to the equalization program. Because the federal government is not making equalization payments on fiscal transfers to the provinces, it deducts from EPF the equalization associated with the fiscal transfer. Prior to the changes announced last January by the federal government, this calculation did not take into account the ceiling on the equalization program, with the result that the provinces lost amounts exceeding the equalization associated with the fiscal transfer. It is this technical anomaly that the federal government rectified.

Changes in the measurement of the provinces' fiscal capacity under the equalization program mean that Québec will receive an additional $70 million starting in 1992-1993.

The equalization ceiling, which should cost Québec nearly $200 million with respect to 1991-1992, will not apply in 1992-1993.[2]

When the impact of these factors is excluded, federal transfers will increase by 4.5 % in 1992-1993. A 1.8 % decrease is anticipated in 1993-1994, and a 1.7 % drop in 1994-1995.

Budgetary expenditure

Budgetary expenditure for 1992-1993, outlined in the estimates tabled last March, will increase by 5.9 % in relation to 1991-1992, 3.9 percentage points higher than the inflation rate. The adjustments made by the government in its wage proposals to public sector employees have widened this discrepancy.

Because this increase is too rapid, given Québec society's ability to pay and the government's medium-term financial objectives, the government has taken initiatives that will enable it to reduce growth in spending to 5.1 %, despite the measures announced in the budget to support economic recovery.

The measures designed to curtail spending, among other things, cover the health sector, where pressure has been especially strong in recent years. These measures consist of maintaining essential health coverage, within the limits allowed by the Canada Health Act, increasing the productivity of establishments and demanding a contribution for certain supplementary services.

Measures to cut back operating expenditures will also be applied in the public and parapublic sectors. They consist particularly of additional reductions in staff and in public service and network operating expenditures.

2 The base year now used to calculate the equalization ceiling is 1992-1993 rather than 1987-1988, with the result that there will be no ceiling on equalization entitlements in 1992-1993. In subsequent years, equalization entitlements of all the receiving provinces shall not increase more rapidly than gross national product in relation to the new base year 1992-1993.

BUDGETARY EXPENDITURE
(in millions of dollars)

	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992	1992-1993	1993-1994	1994-1995
Expenditure before Budget	– 28 166.2	– 30 489.4	– 31 392.7	– 32 716.9	– 35 831.2	– 38 716.5	– 41 019.0	– 42 719.0	– 44 632.0
% change	3.1	8.2	3.0	4.2	9.5	8.1	5.9	4.1	4.5
Expenditure pre-recorded :									
1987-1988	—	848.8	– 624.3	– 224.5	—	—	—	—	—
1988-1989	—	—	636.5	– 603.2	– 33.3	—	—	—	—
1989-1990	—	—	—	183.8	– 183.8	—	—	—	—
Expenditure before Budget on a comparable basis	– 28 166.2	– 29 640.6	– 31 380.5	– 33 360.8	– 36 048.3	– 38 716.5	– 41 019.0	– 42 719.0	– 44 632.0
% change	3.1	5.2	5.9	6.3	8.1	7.4	5.9	4.1	4.5
Revised forecast and net impact of budgetary measures							316.0	256.0	271.0
Expenditure reductions to be made :									
1993-1994								417.0	417.0
1994-1995									595.0
Expenditure on a comparable basis	– 28 166.2	– 29 640.6	– 31 380.5	– 33 360.8	– 36 048.3	– 38 716.5	– 40 703.0	– 42 046.0	– 43 349.0
% change	3.1	5.2	5.9	6.3	8.1	7.4	5.1	3.3	3.1
GDP growth rate in %*	8.8	10.4	9.4	5.4	2.9	1.3	3.3	7.0	6.0
Canadian inflation rate in %*	4.2	4.4	4.0	5.0	4.8	4.2 (1)	2.0	2.3	2.1

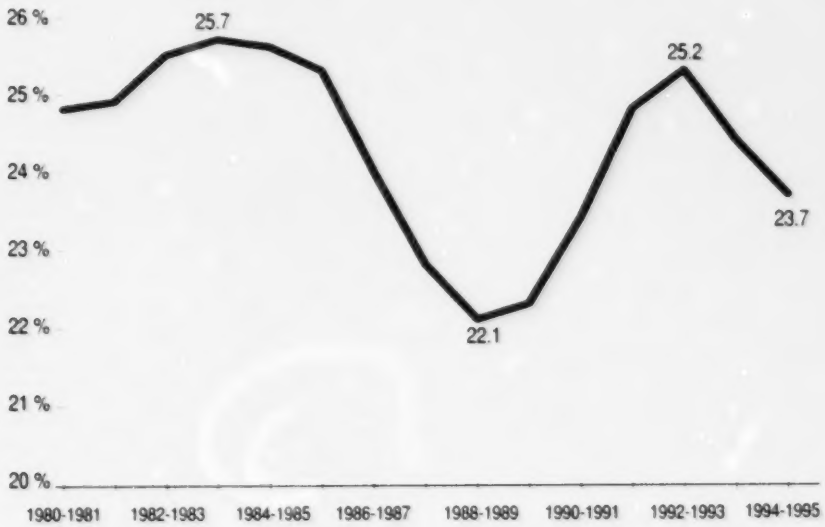
* For the calendar year ending three months before the end of the fiscal year.

1 Inflation rate excluding the effect of the introduction of the GST. When such an effect is included, the rate is 5.6 %.

In 1993-1994 and 1994-1995, the growth rate of spending would be 4.1 % and 4.5 %, respectively, without additional reduction measures. The government intends to reduce them to the inflation rate plus one percentage point for each of the two years. To this end, it will have to effect additional reductions of $417 million in 1993-1994 and $595 million in 1994-1995.

Because of sluggish economic growth, the expenditure/GDP ratio should reach 25.2 % in 1992-1993. However, the objectives pursued with regard to the management of spending will make it possible to bring down the ratio to 23.7 % in 1994-1995.

BUDGETARY EXPENDITURE[1]
(as a percentage of GDP)



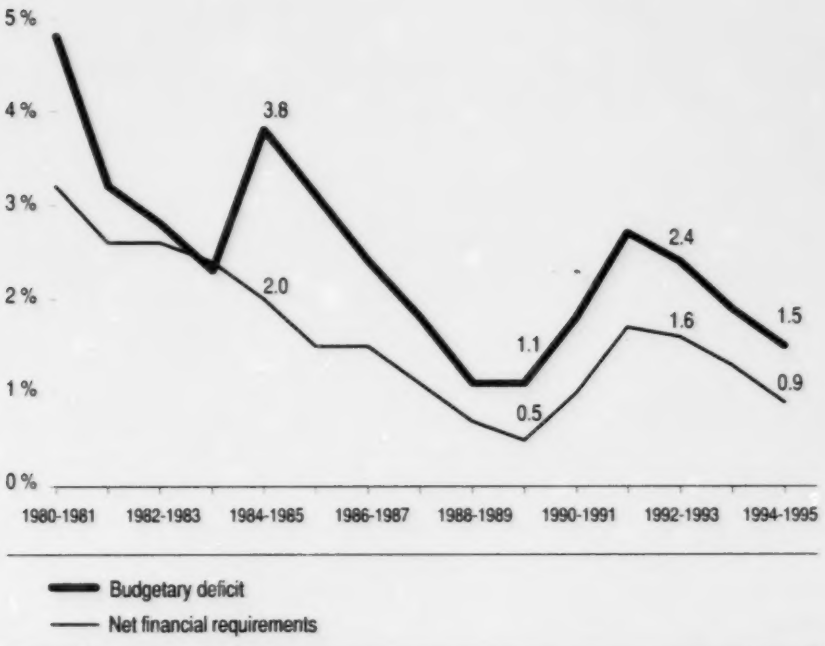
1 Adjusted data excluding the impact of pre-recording expenditures.

Main financial indicators

Budgetary deficit

The decrease to $3 790 million in the budgetary deficit in 1992-1993 will lower the budgetary deficit/GDP ratio to 2.4 %. This trend will continue: the ratio will reach 1.9 % in 1993-1994 and 1.5 % in 1994-1995, a drop of nearly one-half in relation to the 1991-1992 figure.

BUDGETARY DEFICIT AND NET FINANCIAL REQUIREMENTS
(as a percentage of GDP)



Net financial requirements

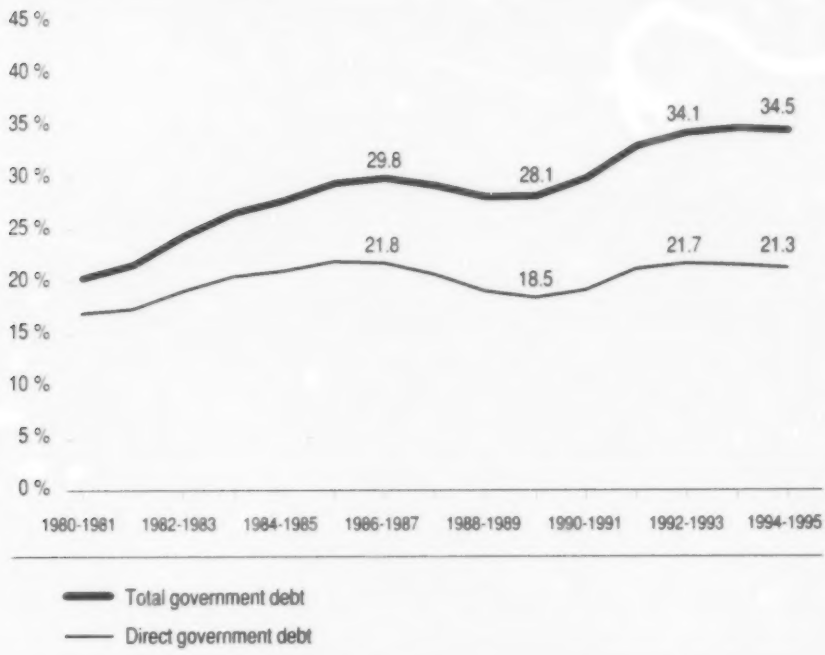
Net financial requirements should drop slightly in 1992-1993, to $2 550 million. Subsequently, the reduction in the budgetary deficit should make it possible to reduce them to $2 280 million in 1993-1994 and to $1 720 million in 1994-1995. The net financial requirements/GDP ratio will reach 1.6 % in 1992-1993, 1.3 % in 1993-1994, and 0.9 % in 1994-1995.

Debt

The direct debt/GDP ratio should increase slightly in 1992-1993, to 21.7 %. It will start diminishing again the following year, and reach 21.3 % in 1994-1995.

The total debt, which includes the direct debt and the public and parapublic sector employees' retirement plans account balance, should grow in relation to GDP to reach 34.1 % in 1992-1993, then level off thereafter.

GOVERNMENT DEBT AT THE END OF THE FISCAL YEAR[1]
(as a percentage of GDP)



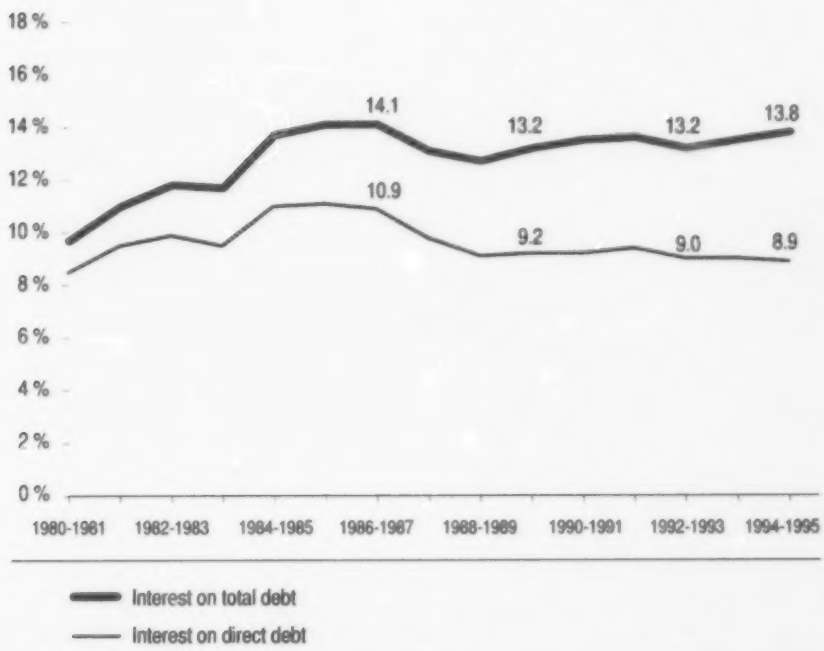
1 Adjusted data excluding the impact of pre-recording expenditures.

Interest costs

In view of the evolution of the government's net financial requirements over the years, the portion of budgetary revenue allocated to interest payments on direct debt will decrease to 9.0 % in 1992-1993 and remain at this level in the coming years.

The proportion of budgetary revenue earmarked for interest payments on the total debt will decrease to 13.2 % in 1992-1993 and increase slightly in subsequent years.

INTEREST COSTS[1]
(as a percentage of budgetary revenue)



1 Adjusted data excluding the impact of pre-recording expenditures.

Current account balance

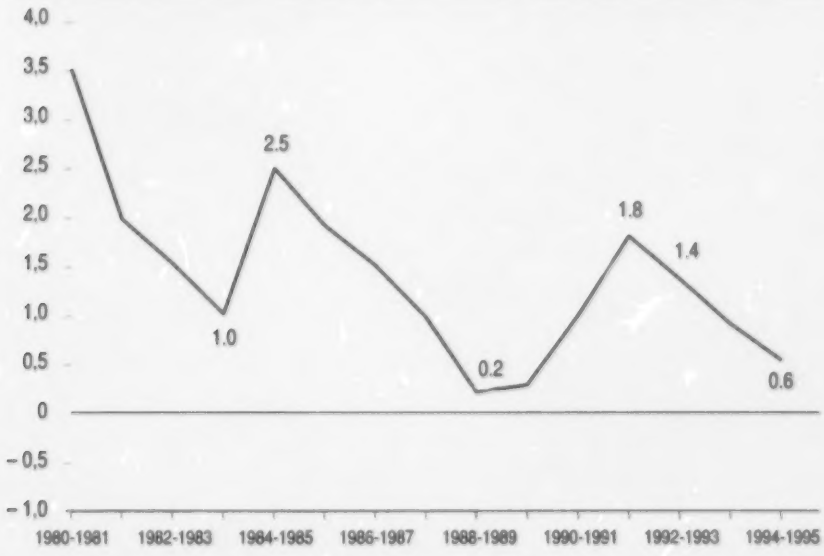
Balancing the current account is one of the government's medium-term financial objectives. When the current account is balanced, the current generation assumes the full cost of the public services it enjoys. The measures the government will adopt will make it possible tc reduce the deficit in the current account by $641 million in 1993-1994 and $586 million in 1994-1995.

CURRENT ACCOUNT BALANCE
(in millions of dollars)

1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992	1992-1993	1993-1994	1994-1995
– 1 768	– 1 274	– 310	– 430	– 1 535	– 2 823	– 2 227	– 1 586	– 1 000

The current account deficit as a percentage of GDP, which was 1.8 % in 1991-1992, should fall to 1.4 % in 1992-1993 and 0.6 % in 1994-1995.

CURRENT ACCOUNT DEFICIT[1]
(as a percentage of GDP)



1 The current account balance is the difference between the budgetary deficit and capital expenditure.

Conclusion

Since 1990, the government has geared the management of public finances to the economic situation, while rigorously managing expenditure. With economic recovery under way, it will be possible to reduce the deficit in 1992-1993 and move toward balancing the current account.

APPENDIX B Addendum

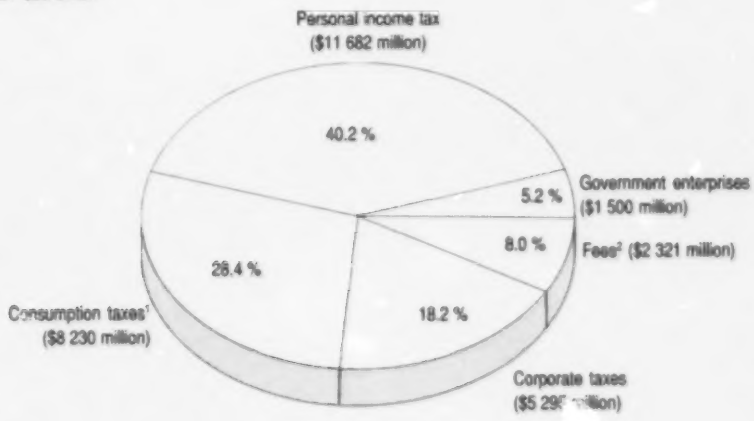
Additional information on the Québec government's revenue and financial situation

Breakdown of the Québec government's own-source revenue by source

Breakdown in 1992-1993

In 1992-1993, own-source revenue totalling $29 billion will be generated, in descending order of importance, by personal income tax (40.2 %), consumption taxes (28.4 %), corporate taxes, which include employer contributions to the Health Services Fund (18.2 %), fees (8.0 %), including duties, licences and miscellaneous revenues, and government enterprises (5.2 %).

BREAKDOWN OF OWN-SOURCE REVENUE BY SOURCE, 1992-1993



1 Including duties on alcoholic beverages.

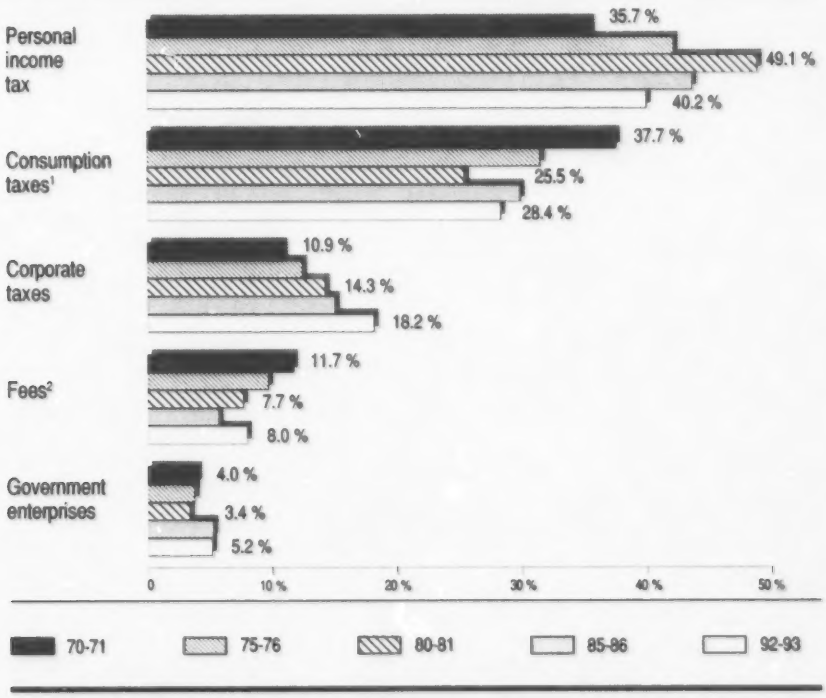
2 Duties and licences (except duties on alcoholic beverages) and miscellaneous revenues.

Changes in the breakdown of own-source revenue by source

The graph below indicates the change in the relative importance of each of the foregoing sources in the government's total own-source revenue. While the contribution of personal income tax rose sharply in the early 1970s, increasing from 35.7 % of own-source revenue in 1970-1971 to 49.1 % in 1980-1981, its relative importance has gradually declined since then, as it is expected to reach 40.2 % in 1992-1993. However, consumption taxes, which generated nearly 37.7 % of own-source revenue in 1970-1971, declined in relative importance during the 1970s. In 1980-1981, they accounted for only 25.5 % of own-source revenue; this figure will rise to 28.4 % in 1992-1993.

The importance of corporate taxes has grown constantly in all of the years under consideration, from 10.9 % in 1970-1971 to 18.2 % in 1992-1993. The proportion of own-source revenue attributable to fees has fallen constantly and it is only in recent years that a slight upturn has been noted. Since 1970-1971, revenues from government enterprises have accounted for between 3.4 % and 5.4 % of own-source revenue.

EVOLUTION OF BREAKDOWN OF OWN-SOURCE REVENUE BY SOURCE
(as a percentage of the total)



1 Including duties on alcoholic beverages.

2 Duties and licences (except duties on alcoholic beverages) and miscellaneous revenues.

Table 1
GOUVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS
(in millions of dollars)

	1970-1971	1971-1972	1972-1973	1973-1974	1974-1975	1975-1976	1976-1977	1977-1978	1978-1979
1. Budgetary transactions									
Own-source revenue	2 673.9	3 112.4	3 676.9	4 264.0	5 269.6	6 013.0	7 033.6	7 834.9	8 336.2
Federal transfers	1 124.3	1 316.9	1 267.8	1 391.0	1 888.1	2 243.7	2 540.1	3 110.3	3 305.5
Revenue	3 798.2	4 429.3	4 944.7	5 655.0	7 157.7	8 256.7	9 573.7	10 945.2	11 641.7
Expenditure	– 3 933.2	– 4 775.1	– 5 265.1	– 6 294.7	– 7 559.9	– 9 184.6	– 10 717.4	– 11 604.2	– 13 129.2
Deficit	**– 135.0**	**– 345.8**	**– 320.4**	**– 639.7**	**– 402.2**	**– 927.9**	**– 1 143.7**	**– 659.0**	**– 1 487.5**
2. Non-budgetary transactions									
Investments, loans and advances	– 72.6	– 62.9	– 52.6	– 121.8	– 146.0	– 185.9	– 182.5	– 228.7	– 188.3
Retirement plans account	1.6	1.1	– 0.5	24.6	104.3	109.1	186.4	264.4	315.7
Allowance for water purification	—	—	—	—	—	—	—	—	—
Other accounts	15.6	104.1	– 8.4	440.1	278.8	599.1	– 193.3	– 533.2	108.2
Surplus	**– 55.4**	**42.3**	**– 61.5**	**342.9**	**237.1**	**522.3**	**– 189.4**	**– 497.5**	**235.6**
3. Net financial requirements	**– 190.4**	**– 303.5**	**– 381.9**	**– 296.8**	**– 165.1**	**– 405.6**	**– 1 333.1**	**– 1 156.5**	**– 1 251.9**
4. Financing transactions									
Change in cash position	– 52.1	– 143.2	– 8.7	– 73.9	– 181.8	– 513.7	330.7	372.4	49.6
New borrowings	372.7	569.6	579.6	638.2	586.1	1 206.3	1 354.6	1 042.3	1 575.5
Change in debt resulting from the proceeds of a currency swap contract	—	—	—	—	—	—	—	—	—
Repayment of borrowings	– 130.2	– 122.9	– 189.0	– 267.5	– 239.2	– 287.0	– 352.2	– 258.2	– 373.2
Total financing	**190.4**	**303.5**	**381.9**	**296.8**	**165.1**	**405.6**	**1 333.1**	**1 156.5**	**1 251.9**

E : Estimates.

Note : A negative entry indicates a financial requirement and a positive entry, a source of financing.
Results are shown on the basis of the budgetary and financial structure in force for 1992-1993.

1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992[a]
9 263.0	10 551.5	13 226.0	14 349.6	15 390.0	15 791.9	17 749.5	19 474.9	21 939.3	23 329.0	24 316.6	25 991.4	27 790.5
3 777.8	3 919.5	4 506.5	5 194.3	6 250.1	6 260.7	6 221.0	5 872.1	6 175.9	6 450.5	6 740.9	7 015.0	6 731.0
13 040.8	14 471.0	17 732.5	19 543.9	21 640.1	22 052.6	23 970.5	25 347.0	28 115.2	29 779.5	31 057.5	33 006.4	34 521.5
– 15 390.0	– 17 921.1	– 20 310.5	– 21 962.9	– 23 740.9	– 25 848.3	– 27 314.4	– 28 166.2	– 30 489.4	– 31 392.7	– 32 716.9	– 35 831.2	– 38 716.5
– 2 349.2	**– 3 450.1**	**– 2 578.0**	**– 2 419.0**	**– 2 100.8**	**– 3 795.7**	**– 3 343.9**	**– 2 819.2**	**– 2 374.2**	**– 1 613.2**	**– 1 659.4**	**– 2 824.8**	**– 4 195.0**
– 188.2	– 56.3	– 586.6	– 761.1	– 671.7	– 167.4	40.4	– 379.7	– 680.3	– 669.5	– 515.7	– 458.1	– 421.0
682.8	822.3	1 007.3	1 051.2	1 056.7	1 183.5	1 269.0	1 354.8	2 203.0	1 634.0	1 163.8	1 873.7	1 928.0
—	—	—	—	—	—	4.3	9.8	12.2	14.9	– 3.6	—	21.0
500.7	384.6	28.1	– 84.5	– 499.0	809.5	359.2	96.8	– 526.8	– 370.6	198.6	– 72.9	– 8.0
995.3	**1 150.6**	**448.8**	**205.6**	**– 114.0**	**1 825.6**	**1 672.9**	**1 081.7**	**1 008.1**	**608.8**	**843.1**	**1 342.7**	**1 520.0**
– 1 353.9	**– 2 299.5**	**– 2 129.2**	**–2 213.4**	**– 2 214.8**	**– 1 970.1**	**– 1 671.0**	**– 1 737.5**	**– 1 366.1**	**– 1 004.4**	**– 816.3**	**– 1 482.1**	**– 2 675.0**
229.3	– 456.1	207.9	– 75.5	– 13.7	– 211.0	– 18.0	– 80.9	173.2	20.8	32.2	– 280.7	– 466.0
1 648.9	3 352.9	2 951.6	2 761.8	2 797.0	3 281.0	2 992.5	4 396.0	3 199.6	3 232.6	2 722.3	3 017.1	5 787.6
—	—	—	—	—	—	—	—	—	—	—	54.3	—
– 524.3	– 597.3	– 1 030.3	– 472.9	– 568.5	– 1 099.9	– 1 303.5	– 2 577.6	– 2 006.7	– 2 249.0	– 1 938.2	– 1 308.6	– 2 646.6
1 353.9	**2 299.5**	**2 129.2**	**2 213.4**	**2 214.8**	**1 970.1**	**1 671.0**	**1 737.5**	**1 366.1**	**1 004.4**	**816.3**	**1 482.1**	**2 675.0**

Table 2
GOUVERNEMENT DU QUÉBEC
TOTAL DEBT AT THE END OF THE FISCAL YEAR[1]

	Direct debt[2]		Retirement plans account		Total debt	
	In millions of dollars	As a % of GDP	In millions of dollars	As a % of GDP	In millions of dollars	As a % of GDP
1970-1971	2 478.5	11.0	—	—	2 478.5	11.0
1971-1972	2 919.7	12.0	—	—	2 919.7	12.0
1972-1973	3 309.2	12.2	—	—	3 309.2	12.2
1973-1974	3 678.8	11.9	—	—	3 678.8	11.9
1974-1975	4 029.9	11.1	67.2	0.2	4 097.1	11.3
1975-1976	4 955.3	12.1	179.1	0.4	5 134.4	12.5
1976-1977	6 035.0	12.7	354.2	0.7	6 389.2	13.4
1977-1978	7 111.0	13.6	619.6	1.2	7 730.6	14.8
1978-1979	8 325.0	14.3	915.4	1.6	9 240.4	15.9
1979-1980	9 472.0	14.6	1 598.2	2.5	11 070.2	17.0
1980-1981	12 247.0	17.0	2 420.5	3.4	14 667.5	20.3
1981-1982	14 184.0	17.4	3 427.8	4.2	17 611.8	21.6
1982-1983	16 485.0	19.1	4 488.7	5.2	20 973.7	24.3
1983-1984	18 880.0	20.5	5 545.4	6.0	24 425.4	26.5
1984-1985	21 216.0	21.0	6 728.9	6.7	27 944.9	27.7
1985-1986	23 633.0	21.9	7 997.9	7.4	31 630.9	29.3
1986-1987	25 606.0	21.8	9 352.7	8.0	34 958.7	29.8
1987-1988	26 819.0	20.7	10 882.7	8.4	37 701.7	29.1
1988-1989	27 091.3	19.1	12 596.6	8.9	39 687.9	28.0
1989-1990	27 699.2	18.5	14 320.2	9.6	42 019.4	28.1
1990-1991	29 636.7	19.2	16 227.2	10.5	45 863.9	29.8
1991-1992[E]	33 097.0	21.2	18 155.2	11.6	51 252.2	32.8

E : Estimates.
1 Adjusted data excluding the impact of pre-recording expenditures.
2 Including Treasury bills and the long-term debt.

Table 3
GOUVERNEMENT DU QUÉBEC
INTEREST COSTS ON DEBT[1]

	Interest on direct debt		Interest on retirement plans account		Interest on total debt	
	In millions of dollars	As a % of budgetary revenue	In millions of dollars	As a % of budgetary revenue	In millions of dollars	As a % of budgetary revenue
1970-1971	180.0	4.7	—	—	180.0	4.7
1971-1972	206.3	4.7	—	—	206.3	4.7
1972-1973	240.6	4.9	—	—	240.6	4.9
1973-1974	287.3	5.1	—	—	287.3	5.1
1974-1975	312.9	4.4	—	—	312.9	4.4
1975-1976	397.9	4.8	—	—	397.9	4.8
1976-1977	497.9	5.2	—	—	497.9	5.2
1977-1978	610.1	5.6	—	—	610.1	5.6
1978-1979	757.7	6.5	54.0	0.5	811.7	7.0
1979-1980	887.4	6.8	87.6	0.7	975.0	7.5
1980-1981	1 232.2	8.5	164.6	1.1	1 396.8	9.7
1981-1982	1 691.8	9.5	263.4	1.5	1 955.2	11.0
1982-1983	1 931.2	9.9	379.5	1.9	2 310.7	11.8
1983-1984	2 056.5	9.5	480.3	2.2	2 536.8	11.7
1984-1985	2 427.9	11.0	597.8	2.7	3 025.7	13.7
1985-1986	2 662.6	11.1	705.9	2.9	3 368.5	14.1
1986-1987	2 766.0	10.9	802.2	3.2	3 568.2	14.1
1987-1988	2 765.5	9.8	924.0	3.3	3 689.5	13.1
1988-1989	2 712.3	9.1	1 070.9	3.6	3 783.2	12.7
1989-1990	2 853.1	9.2	1 252.1	4.0	4 105.2	13.2
1990-1991	3 035.0	9.2	1 410.5	4.3	4 445.5	13.5
1991-1992[E]	3 244.0	9.4	1 444.0	4.2	4 688.0	13.6

E : Estimates.

1 Adjusted data excluding the impact of pre-recording expenditures.

Table 4
GOUVERNEMENT DU QUÉBEC
CURRENT ACCOUNT BALANCE
(in millions of dollars)

	Budgetary expenditure	(–)	Total capital expenditure[1]	(=)	Adjusted budgetary expenditure	(+)	Budgetary revenue	(=)	Current account balance[2]
1970-1971	– 3 933.2		– 437.9		– 3 495.3		3 798.2		302.9
1971-1972	– 4 775.1		– 651.3		– 4 123.8		4 429.3		305.5
1972-1973	– 5 265.1		– 674.0		– 4 591.1		4 944.7		353.6
1973-1974	– 6 294.7		– 726.3		– 5 568.4		5 655.0		86.6
1974-1975	– 7 559.9		– 888.2		– 6 671.7		7 157.7		486.0
1975-1976	– 9 184.6		– 981.0		– 8 203.6		8 256.7		53.1
1976-1977	– 10 717.4		– 820.1		– 9 897.3		9 573.7		– 323.6
1977-1978	– 11 604.2		– 839.9		– 10 764.3		10 945.2		180.9
1978-1979	– 13 129.2		– 936.2		– 12 193.0		11 641.7		– 551.3
1979-1980	– 15 390.0		– 926.4		– 14 463.6		13 040.8		– 1 422.8
1980-1981	– 17 921.1		– 920.6		– 17 000.5		14 471.0		– 2 529.5
1981-1982	– 20 310.5		– 961.5		– 19 349.0		17 732.5		– 1 616.5
1982-1983	– 21 962.9		– 1 099.7		– 20 863.2		19 543.9		– 1 319.3
1983-1984	– 23 740.9		– 1 156.2		– 22 584.7		21 640.1		– 944.6
1984-1985	– 25 848.3		– 1 270.3		– 24 578.0		22 052.6		– 2 525.4
1985-1986	– 27 314.4		– 1 269.1		– 26 045.3		23 970.5		– 2 074.8
1986-1987	– 28 166.2		– 1 050.8		– 27 115.4		25 347.0		– 1 768.4
1987-1988	– 30 489.4		– 1 100.7		– 29 388.7		28 115.2		– 1 273.5
1988-1989	– 31 392.7		– 1 303.4		– 30 089.3		29 779.5		– 309.8
1989-1990	– 32 716.9		– 1 229.3		– 31 487.6		31 057.5		– 430.1
1990-1991	– 35 831.2		– 1 289.8		– 34 541.4		33 006.4		– 1 535.0
1991-1992[E]	– 38 716.5		– 1 372.4		– 37 344.1		34 521.5		– 2 822.6

E : Estimates.

1 Total capital expenditure includes direct government capital expenditure, subsidies for capital expenditure and the portion of debt service subsidies consisting of capital repayment.

2 Budgetary balance excluding total capital expenditure.

APPENDIX C

The Government's Financial Position and Public Sector Borrowings

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The government's financial transactions[1]

A $4 195 million deficit

The preliminary results for the year ending March 31, 1992 show a $4 195 million deficit in budgetary transactions, compared with the deficit of $4 125 million forecast in the Quarterly Presentation of Financial Transactions as at December 31, 1991. These preliminary results are $715 million higher than the deficit forecast in the Budget Speech of May 2, 1991, i.e. $3 480 million.

Budgetary revenue for the 1991-1992 fiscal year is $374 million less than anticipated. This gap consists of $214 million in own-source revenue and $160 million in federal transfers. In addition, budgetary expenditure is $341 million higher than expected, totalling $38 730 million.

Net financial requirements at $2 675 million

Net financial requirements were $2 675 million, or $25 million less than the amount forecast in the Quarterly Presentation of Financial Transactions as at December 31, 1991, i.e $2 700 million. However, this result represents an increase of $475 million compared with the figure anticipated in the Budget of May 1991. This variation reflects the combined impact of the $715 million rise in the deficit in budgetary transactions and the $240 million increase in non-budgetary transactions.

With respect to financing, the change in direct debt for the 1991-1992 fiscal year amounts to $3 141 million, an increase of $941 million compared with the forecast in the Budget Speech of May 2, 1991. This disparity is attributable to the $475 million rise in net financial requirements and the $466 million increase in the government's cash position.

1 The analysis of the government's financial transactions is based on the results obtained using the financial and budgetary structure in effect for the 1991-1992 fiscal year. Moreover, the data included in the historical tables have been adjusted, for purposes of comparison, on the basis of the financial and budgetary structure that will prevail in 1992-1993.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS
(in millions of dollars)

	1990-1991			1991-1992
	Real results	Budget Speech 1991-05-02	Preliminary results[1]	Changes
Budgetary transactions				
Revenue	33 024.0	34 909.0	34 535.0	– 374.0
Expenditure	– 35 848.8	– 38 389.0	– 38 730.0	– 341.0
Deficit	– 2 824.8	– 3 480.0	– 4 195.0	– 715.0
Non-budgetary transactions				
Investments, loans and advances	– 458.1	– 591.0	– 421.0	170.0
Retirement plans account	1 873.7	2 057.0	1 928.0	– 129.0
Allowance for water purification	—	22.0	21.0	– 1.0
Other accounts	– 72.9	– 208.0	– 8.0	200.0
Surplus	1 342.7	1 280.0	1 520.0	240.0
Net financial requirements	**– 1 482.1**	**– 2 200.0**	**– 2 675.0**	**– 475.0**
Financing transactions				
Change in cash position	– 280.7	—	– 466.0	– 466.0
Change in direct debt	1 762.8	2 200.0	3 141.0	941.0
Total financing	**1 482.1**	**2 200.0**	**2 675.0**	**475.0**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

1 The preliminary results for 1991-1992 are based on data recorded from April 1991 to February 1992, and on an estimate, as at April 7, 1992, of revenue and expenditure to be posted, up to the closing of the books, to 1991-1992 transactions, in keeping with the accounting practices in effect.

Budgetary revenue

For the 1991-1992 fiscal year, budgetary revenue totals $34 535 million, an increase of 4.6 % compared with the previous year. Own-source revenue grew by 6.9 %, while federal transfers fell by 4 %. Own-source revenue and federal transfers are respectively $214 million and $160 million less than forecast in the Budget Speech of May 2, 1991.

SUMMARY OF OWN-SOURCE REVENUE
(in millions of dollars)

	1990-1991	1991-1992			
	Real results	Budget Speech 1991-05-02	Preliminary results	Changes compared with Budget	Changes compared with 1990-1991
					%
Personal income tax	11 578.6	11 828.0	11 875.0	47.0	2.6
Employer contributions to Health Services Fund	2 641.4	2 826.0	2 777.0	– 49.0	5.1
Corporate taxes	1 711.8	1 626.0	1 861.0	235.0	8.7
Retail sales tax	4 794.9	6 203.0	6 005.0	– 198.0	25.2
Tobacco tax	585.8	561.0	507.0	– 54.0	– 13.5
Other consumption taxes[1]	175.0	126.0	170.0	44.0	– 2.9
Motor vehicles	458.8	549.0	513.0	– 36.0	11.8
Fines, forfeitures and recoveries	334.3	366.0	333.0	– 33.0	– 0.4
Revenue from government enterprises	1 175.4	1 641.0	1 495.0	– 146.0	27.2
Other sources	2 553.0	2 292.0	2 268.0	– 24.0	– 11.2
Total own-source revenue	**26 009.0**	**28 018.0**	**27 804.0**	**– 214.0**	**6.9**

1 Includes tax on telecommunications and on electronic advertising.

The decrease in own-source revenue results from the combined impact of several factors. Revenue from personal income tax is $47 million more than initially forecast, owing to the higher revenues generated by the processing of income tax returns for the 1990 taxation year. The $235 million increase in corporate taxes is attributable to higher-than-anticipated taxable corporate income for the 1990 and 1991 taxation years. Employer contributions to the Health Services Fund are $49 million lower than originally forecast, reflecting the slightly lower-than-expected growth in salaries and wages.

As regards consumption taxes, revenue from the retail sales tax is $198 million less than expected. This difference may be attributed mainly to the postponement until July 1, 1992 of the coming into effect of the second phase of the consumption tax reform. This measure led to a $69 million drop in consumption taxes, or a $112 million decrease in the sales tax and a $43 million rise in the taxes on telecommunications and electronic advertising, since these two taxes remain in effect for an additional six months.

Revenue from the tax on tobacco is $54 million lower than forecast in the 1991-1992 Budget Speech. This variation is attributable to, among other things, illegal imports of tobacco products into Québec, a situation which prompted the federal government and the ministère du Revenu du Québec to introduce, at the beginning of 1992, measures to counteract this practice.

Compared with the forecast in the Budget Speech of 1991-1992, motor vehicle revenue, mainly from registrations and the issuing of driver's licences, is $36 million lower than anticipated, while revenue from fines, forfeitures and recoveries is $33 million less than expected.

Revenue from government enterprises is $146 million lower than initially forecast. The change in the cost of sales by the Société des alcools du Québec and the better-than-expected financial results by Hydro-Québec led to an increase of $20 million and $27 million respectively in revenue. Revenue from other government enterprises is $197 million less than forecast in the Budget Speech of May 2, 1991, mainly because of the deterioration in the results of the Société générale de financement du Québec, REXFOR and Sidbec.

SUMMARY OF TRANSFERS FROM THE GOVERNMENT OF CANADA (in millions of dollars)

	1990-1991	1991-1992			
	Real results	Budget Speech 1991-05-02	Preliminary results	Changes compared with Budget	Changes compared with 1990-1991
					%
Equalization	3 653.4	3 944.0	3 485.0	– 459.0	– 4.6
Other transfers related to fiscal arrangements	1 502.0	1 326.0	1 520.0	194.0	1.2
Contributions to welfare programs	1 410.9	1 374.0	1 522.0	148.0	7.9
Other programs	448.7	247.0	204.0	– 43.0	– 54.5
Total Government of Canada transfers	**7 015.0**	**6 891.0**	**6 731.0**	**– 160.0**	**– 4.0**

In regard to federal transfers, the preliminary results show a decrease of $160 million compared with the figure announced in the Budget Speech of May 1991.

Equalization revenue is $459 million lower than initially forecast. This difference can be attributed to two main factors. First, revenue from Canadian provinces which were subject to equalization in 1990-1991 and 1991-1992 has declined substantially. Second, tax bases were updated using data that became available during the year, in particular the final data for 1989. These changes, pertaining, among other things, to personal income tax and general sales taxes, reduced the interprovincial disparities which equalization is designed to offset. This led to a decrease in equalization payments to Québec.

With regard to other transfers related to fiscal arrangements (Established Programs Financing), revenue is $194 million higher than forecast in the 1991-1992 Budget Speech. This result may be explained by the increase in the total contribution, owing in particular to the inclusion of non-permanent residents in the basic calculation, and to a decline in transfers in the form of tax points because of the economic slowdown. A decrease in the value of tax points results in a proportionate increase in the federal contribution paid in the form of fiscal transfers.

Contributions to welfare programs (Canada Assistance Plan) are $148 million higher than initially forecast, mainly because of an increase in social aid and welfare expenditures, a positive adjustment for previous years, and the shrinking of transfers in the form of tax points. In addition, a decrease of $43 million is observed under other programs.

Budgetary expenditure

Preliminary results for budgetary expenditure amount to $38 730 million for fiscal 1991-1992, $341 million more than forecast in the Budget Speech of May 2, 1991.

SUMMARY OF EXPENDITURE
(in millions of dollars)

		1991-1992	
	Budget Speech 1991-05-02	Preliminary results	Changes
Initial estimates	**38 787.2**	**38 787.2**	**—**
Plus:			
☐ Supplementary estimates of December 12, 1991		681.5	681.5
☐ Supplementary estimates authorized under specific legislative provisions		7.1	7.1
☐ Overruns on permanent appropriations		80.6	80.6
Less:			
☐ Transfers of budgetary appropriations to investments, loans and advances		– 3.1	– 3.1
☐ Lapsed appropriations	– 378.0[1]	– 835.6	– 457.6
☐ Change in allowance for loss on share investments	– 20.2	12.3	32.5
Total 1991-1992 expenditure	**38 389.0**	**38 730.0**	**341.0**

1 Net lapsed appropriations announced in the Budget Speech, integrating $12 million in additional expenditure.

By adjusting the data to take into account the pre-recording in 1987-1988, 1988-1989 and 1989-1990 of certain expenditures that the government could have assumed in future years, the annual rate of growth, on a comparable basis, is 7.4 % for 1991-1992 compared with 8.1 % in 1990-1991.

BUDGETARY EXPENDITURE
(in millions of dollars)

	1989-1990	1990-1991	1991-1992
Total expenditure	32 733.3	35 848.8	38 730.0
☐ Creation of the register fund on January 1, 1992	– 16.4	– 17.6	– 13.5[1]
	32 716.9	35 831.2	38 716.5
☐ Impact of pre-recording expenditure in :			
– 1987-1988	224.5	—	—
– 1988-1989	603.2	33.3	—
– 1989-1990	– 183.8	183.8	—
Expenditure on a comparable basis	**33 360.8**	**36 048.3**	**38 716.5**
% change		**8.1**	**7.4**

1 Represents the amount posted under expenditure from April 1 to December 31, 1991.

The $341 million rise in expenditure for the current year reflects the supplementary appropriations of $681.5 million voted last December and overruns of $80.6 million on permanent appropriations. Of the latter amount, $69.9 million were devoted to servicing the direct debt, mainly because of increased borrowings and the depreciation of the Canadian dollar in relation to certain foreign currencies, partly counteracted by lower interest rates. These additional expenditures were largely offset by unexpended appropriations for certain items, particularly in the wake of measures implemented by the government over the past year.

Supplementary appropriations authorized by the National Assembly during the year were needed, among other things, to cover additional expenditures of $105 million for income security programs, caused mainly by the larger-than-anticipated clientele. In addition, operating subsidies for educational institutions are $134 million more than expected, owing to the higher-than-anticipated number of students, notably in vocational training, college education and adult education. Expenditures related to student financial aid rose by $44 million.

The cost of services provided by the Régie de l'assurance-maladie du Québec grew by $106 million, mainly since health contribution measures originally planned were not implemented. Operating expenditures related to other health and social services programs are $66 million higher than initially forecast.

Unexpended budgetary appropriations total $838.7 million, $3.1 million of which were transferred to investments, loans and advances. The main lapsed appropriations include the $133 million reduction in the government contribution to retirement plans. This variation is mainly attributable to the decline, compared with the initial forecast, in the interest rate applicable to the balance of the retirement plans account. Regular lapsed appropriations, generated by the activities of the various departments, came to $702.6 million, or 1.8 % of the total appropriations authorized.

Non-budgetary transactions

Preliminary results show that the surplus in non-budgetary transactions amounts to $1 520 million, an increase of $240 million compared with the forecast in the May 1991 Budget Speech. This improvement is due, in particular, to reductions of $170 million in financing requirements in the form of investments, loans and advances, and of $200 million in the balance of other non-budgetary accounts. It is partly offset, however, by a $129 million decrease in the surplus of the retirement plans account.

SUMMARY OF NON-BUDGETARY TRANSACTIONS
(in millions of dollars)

			1991-1992
	Budget Speech 1991-05-02	Preliminary results	Changes
Investments, loans and advances			
Government enterprises			
☐ Shares and investments, and change in the equity value of investments	– 749.7	– 624.8	124.9
☐ Loans and advances	176.5	220.5	44.0
Subtotal	– 573.2	– 404.3	168.9
Loans and advances to municipalities, municipal bodies, individuals, corporations and others	– 17.8	– 16.7	1.1
Total investments, loans and advances	– 591.0	– 421.0	170.0
Retirement plans account	2 057.0	1 928.0	– 129.0
Allowance for water purification	22.0	21.0	– 1.0
Other accounts	– 208.0	– 8.0	200.0
Surplus	**1 280.0**	**1 520.0**	**240.0**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

The $124.9 million change recorded under the heading of investments in government enterprises, as compared with initial forecasts, can be explained by the $144.8 million reduction in the change in the equity value of investments in those corporations, which is mainly the result of lower net profits. However, this discrepancy is offset by an increase of $21.3 million in subscriptions to REXFOR share capital, required to finance the participation of this enterprise in various investment projects. The $44 million change in loans and advances to government enterprises is mainly due to lower-than-expected outstanding advances to the Société de développement industriel du Québec and REXFOR.

The surplus in the retirement plans account amounts to $1 928 million, a decrease of $129 million compared with the amount forecast in the Budget Speech of May 2, 1991. This variation reflects the $133 million decrease in contributions by the government as employer and the $13 million decline in employee contributions, partly offset by a $17 million reduction in benefits paid. The less-than-anticipated employer contribution is mainly attributable to the lower interest rate applicable to this account.

Transactions related to other non-budgetary accounts essentially represent year-to-year variations in these financial items. These accounts normally fluctuate with the overall volume of financial transactions and are subject to significant variations from year to year, which depend on the timing of the collection and disbursement transactions. For 1991-1992, the balance of the other accounts shows a financing requirement of $8 million, compared with the $208 million forecast in the Budget Speech. This $200 million improvement is due mainly to increases of $117 million, $123 million and $54 million respectively in accounts payable, accrued interest on borrowings, and outstanding cheques, partly offset by the $116 million increase in the balance of accounts receivable as at March 31, 1992.

Repayment of borrowings

The preliminary results show that the repayment of borrowings for fiscal 1991-1992 amounts to $2 646.6 million, which is $781.6 million more than forecast in the Budget Speech of May 2, 1991. This variation is mainly attributable to the fact that the government, which was in a position to renegotiate certain loans on more favourable terms, took advantage of provisions respecting call privileges on certain loans that were not due to mature this year. These transactions resulted in a $998 million increase in the repayment of borrowings for 1991-1992. However, the net impact on the repayment of government borrowings amounts to $899.6 million, since $98.4 million was repaid using sinking fund assets.

In addition, $366.5 million in savings bonds were redeemed, which is $123.5 million less than forecast in the Budget of May 1991. This decrease is due to the fact that holders exercised fewer call privileges than expected, owing to the decline in interest rates on competitive investment vehicles. Savings bonds outstanding as at March 31, 1992 amounted to $2 043.5 million.

TOTAL SAVINGS BONDS OUTSTANDING
(in millions of dollars)

Total outstanding as at March 31, 1991		1 965.4
Plus: 1990 issue	2.6[1]	
1991 issue	442.0[2]	
		444.6
Less: Redemptions		366.5
Total outstanding as at March 31, 1992		**2 043.5**

1 Amount received after March 31, 1991 from the 1990 issue of $422.1 million.

2 Amount received as at March 31, 1992 from the 1991 issue of $444.6 million.

Financing

Gross borrowings to meet the needs of the consolidated revenue fund amounted to $5 787.6 million during fiscal 1991-1992, which is $2 770.5 million more than the previous year. In addition, borrowings of $1 016.3 million were made for the purposes of the ministère des Finances financing fund, which was set up at the beginning of 1991 to group the bonded debt that certain public bodies, such as educational institutions, health and social services establishments and government enterprises other than Hydro-Québec, formerly contracted in their own name. In all, $6 803.9 million were borrowed on financial markets.

Borrowings for the consolidated revenue fund totalled $5 787.6 million, $1 722.6 million more than the amount forecast in the Budget Speech, i.e. $4 065 million. This increase can be explained by the rise in net financial requirements and the government's decision to step up the rate of financing transactions in order to take advantage of certain opportunities. As a result, the government has contracted an additional $466 million to cover its financial requirements in fiscal 1992-1993 and taken advantage of a favourable bond market in order to refinance, in advance, $998 million of its existing debt. This refinancing has made it possible to reduce the cost of these borrowings by an average of 137 basis points and will lead to savings of $12 million in 1992-1993.

Québec's reputation on international markets has allowed it to diversify its sources of financing and to return to certain European markets that had not been approached in recent years. For the first time since 1988, financing has been obtained in French francs, German marks and Japanese yen. Also for the first time, the Québec government has turned to the Italian lira public market.

Favourable developments on European bond markets motivated the government to obtain 39 % of the total financing required for the consolidated revenue fund and the financing fund from these sources. Other sources include Canada, the United States and Japan, which satisfied 38 %, 21 % and 2 % respectively of the government's needs in this regard.

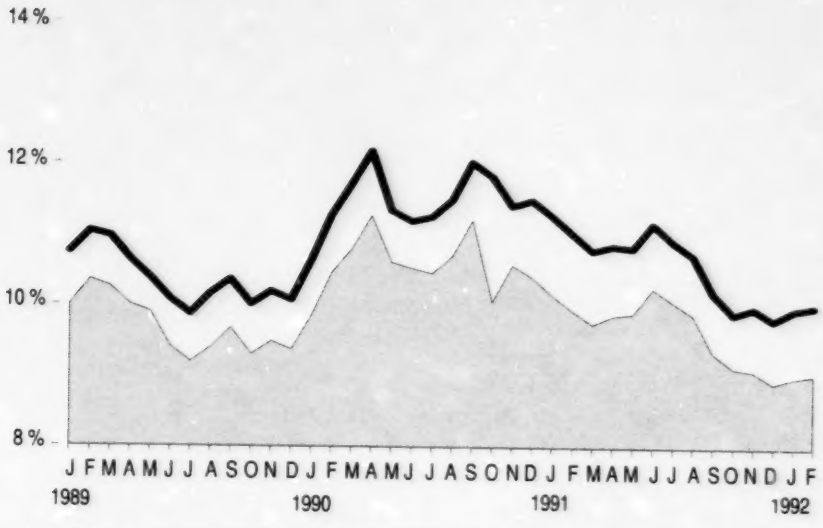
Taking currency swap contracts into account, the proportion of borrowings in Canadian dollars amounts to 48 %, while the proportion in US dollars has reached 42 %. Borrowings in foreign currencies other than US dollars represent 10 %.

The program for issuing medium-term notes in the United States has furnished the equivalent of $348.4 million. Over the past year, the Québec government has further diversified the financial markets that it uses. In particular, it has set up a program for issuing Treasury notes in US dollars on the American market, which raised the equivalent of $472.5 million. Like medium-term notes, Treasury notes make it possible to reach a wider range of investors and offer greater flexibility, at more advantageous borrowing costs.

SUMMARY OF FINANCING
(in millions of dollars)

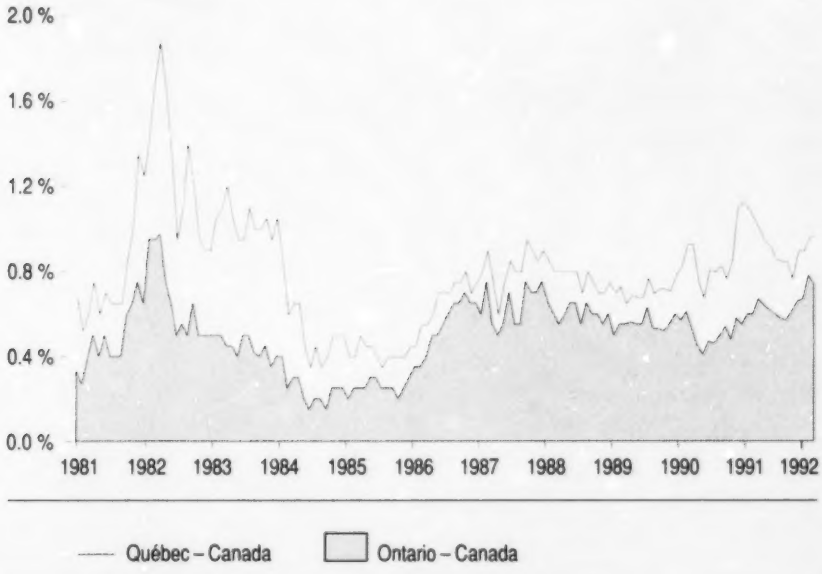
Market and currency	Consolidated revenue fund	Financing fund	Total 1991-1992	%
Canadian dollar				
Canadian market				
☐ Public issues:				
Savings bonds	444.6	—	444.6	6.5
Negotiable bonds	446.9	159.5	606.4	8.9
☐ Private issues:				
Treasury bills	100.0	—	100.0	1.5
Caisse de dépôt et placement du Québec	842.5	477.5	1 320.0	19.4
Other private borrowings	70.2	17.6	87.8	1.3
Canadian Euro-dollar market	250.0	—	250.0	3.7
Asian market				
☐ Public issue:				
Medium-term notes	—	82.0	82.0	1.2
☐ Private issue:				
Negotiable bonds	83.5	—	83.5	1.2
Subtotal	**2 237.7**	**736.6**	**2 974.3**	**43.7**
US dollar				
American market				
☐ Public issues:				
Negotiable bonds	587.7	—	587.7	8.6
Treasury notes	472.5	—	472.5	7.0
Medium-term notes	348.4	—	348.4	5.1
American Euro-dollar market	919.2	—	919.2	13.5
Subtotal	**2 327.8**	**—**	**2 327.8**	**34.2**
Other currencies				
☐ Public issues:				
Euro-Japanese yen market	435.2	—	435.2	6.4
Euro-German mark market	368.0	—	368.0	5.4
Euro-French franc market	418.9	—	418.9	6.2
Italian lira market	—	131.5	131.5	1.9
☐ Private issue:				
German mark market	—	148.2	148.2	2.2
Subtotal	**1 222.1**	**279.7**	**1 501.8**	**22.1**
TOTAL	**5 787.6**	**1 016.3**	**6 803.9**	**100.0**

YIELD ON QUÉBEC AND CANADA LONG-TERM GOVERNMENT SECURITIES


14 %
12 %
10 %
8 %
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F
1989
1990
1991
1992
Yield on Québec long-term government bonds
Yield on Canada long-term government bonds

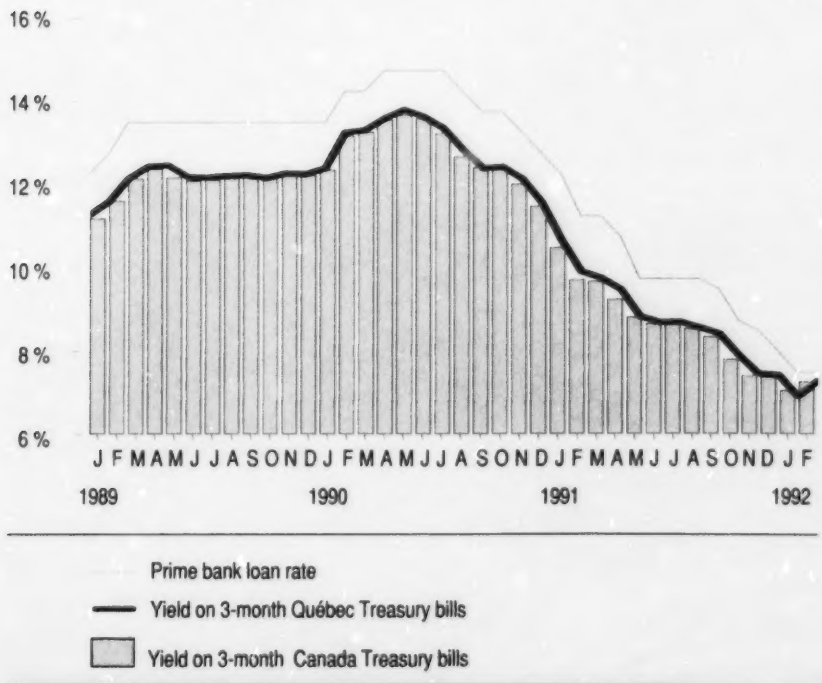
Source : RBC Dominion Securities Inc.

YIELD SPREADS ON LONG-TERM SECURITIES



Source : RBC Dominion Securities Inc.

YIELD ON SHORT-TERM SECURITIES


16 %
14 %
12 %
10 %
8 %
6 %
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F
1989
1990
1991
1992
Prime bank loan rate
Yield on 3-month Québec Treasury bills
Yield on 3-month Canada Treasury bills

Sources : Bank of Canada and ministère des Finances du Québec.

Direct debt

The Québec government's direct debt, including outstanding Treasury bills, stood at $33 097 million as at March 31, 1992. The relatively small proportion of borrowings in Canadian dollars for purposes of the consolidated revenue fund in 1991-1992 reduced the proportion of the direct debt in Canadian dollars from 72.8 % to 66.3 %, while the proportion of the debt in foreign currency rose to 33.7 %, of which 20.9 % was in US dollars. During the same period, borrowings and interest rate swaps brought the share of the debt at fixed rates down from 78.7 % to 72.1 %, while the debt at variable rates rose to 27.9 % by the end of the fiscal year.

The weighted average maturity of the total direct debt, excluding savings bonds, Treasury bills, and Treasury notes in American dollars, fell from 8.8 years as at March 31, 1991 to 8.4 years as at March 31, 1992. Savings bonds outstanding increased slightly during the year to $2 043.5 million at March 31, 1992, or 6.2 % of the government's total debt, while outstanding Treasury bills represented 6.6 %, or $2 175 million.

GOVERNMENT DIRECT DEBT
INCLUDING CURRENCY SWAP CONTRACTS
PRELIMINARY RESULTS AS AT MARCH 31, 1992
(in millions of dollars)

Currency		%
Canadian dollar	21 954	66.3
US dollar	6 927	20.9
Swiss franc	1 793	5.4
Japanese yen	1 477	4.5
German mark	578	1.7
French franc	213	0.7
Pound sterling	155	0.5
	33 097	**100.0**

Note: The debt in foreign currency is expressed in the Canadian equivalent, at the exchange rates effective as at March 31, 1992.

Public sector borrowings and investments

During the 1991 calendar year, gross long-term public sector borrowings totalled $16 697 million, an increase of $7 445 million compared with the previous year. The borrowings of all public sector components, except for municipal bodies, increased substantially.

Some of the borrowings of educational institutions, health and social services establishments and government enterprises other than Hydro-Québec were from the ministère des Finances financing fund, which was set up at the beginning of 1991 to group the debenture loans of certain public agencies. Consequently, these agencies, as a whole, have been able to borrow more to compensate for certain delays in their long-term financing. A total of $868 million was financed through this fund in 1991.

Hydro-Québec obtained $1 922 million, in advance, in financing applicable to its 1992 borrowings program.

LONG-TERM PUBLIC SECTOR BORROWINGS
(in millions of dollars)

	Calendar year					
	1986	1987	1988	1989	1990	1991[1]
Gross borrowings						
Government[2]	4 092	2 852	3 542	2 317	2 266	5 949
Educational institutions[3]	668	657	717	504	427	942
Health and social services establishments	148	280	389	122	297	378
Hydro-Québec[4]	2 199	1 833	1 823	2 926	3 432	5 899
Other government enterprises	1 103	623	690	742	691	1 283
Municipal bodies	1 451	1 770	1 688	1 992	2 139	2 246
Total	**9 661**	**8 015**	**8 849**	**8 603**	**9 252**	**16 697**
Repayments	**5 242**	**5 051**	**4 933**	**5 193**	**4 513**	**6 494**
Net borrowings	**4 419**	**2 964**	**3 916**	**3 410**	**4 739**	**10 203**

1 Preliminary results.

2 Amounts borrowed during the calendar year for purposes of the consolidated revenue fund, excluding less-than-one-year net borrowings made as long-term financing transactions, which explains the difference between this list and the list of borrowings given later in this text. These amounts also exclude borrowings to cover the needs of the financing fund, which are distributed among the agencies for which they were intended, i.e. $460 million for educational institutions, $77 million for health and social services establishments and $331 million for other government enterprises.

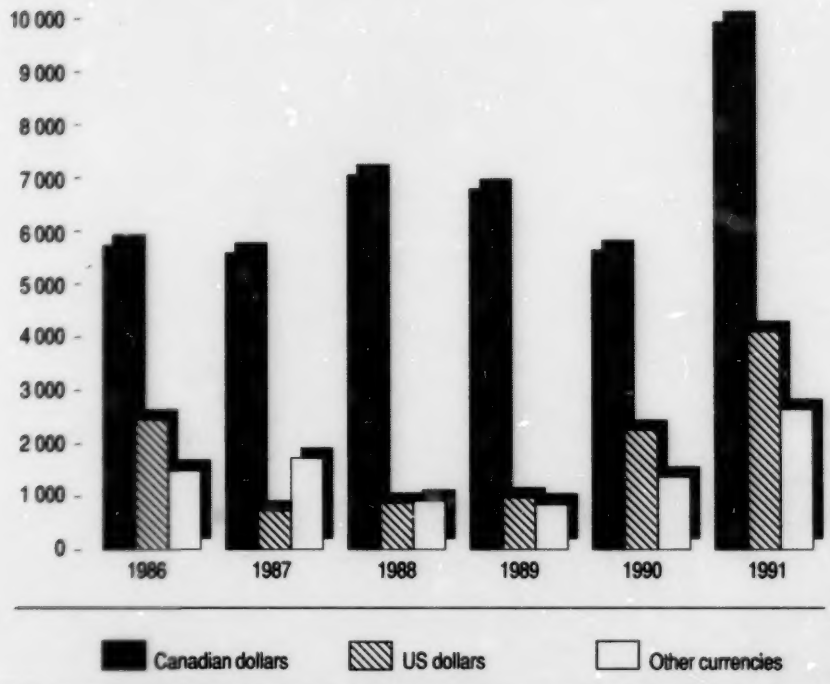
3 Including all the universities in Québec.

4 Amounts borrowed during the calendar year, excluding less-than-one-year net borrowings made as long-term financing transactions, which explains the difference between this list and the list of borrowings given later in this text.

Source: Ministère des Finances du Québec.

Gross borrowings in Canadian dollars totalled $9 948 million in 1991, representing 59.6 % of total public sector borrowings. Gross borrowings in US dollars reached $4 106 million, or 24.6 % of total gross borrowings, while those in other currencies amounted to $2 643 million, or 15.8 % of the total.

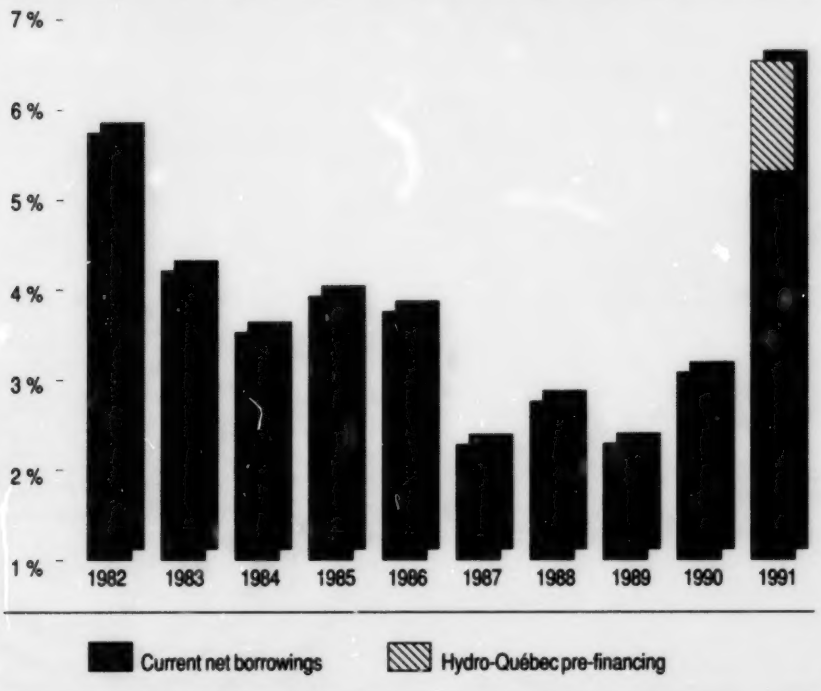
GROSS PUBLIC SECTOR BORROWINGS BY CURRENCY
(in millions of dollars)



Source : Ministère des Finances du Québec.

Taking refinancings and repayments into account, net public sector borrowings are estimated at $10 203 million for 1991. If the anticipated borrowings made by Hydro-Québec for its 1992 requirements are excluded, the ratio of net borrowings to gross domestic product stood at 5.3 % in 1991, which is comparable to the percentage recorded during the last recession, in 1982.

NET PUBLIC SECTOR BORROWINGS COMPARED WITH GROSS DOMESTIC PRODUCT



Source : Ministère des Finances du Québec.

PUBLIC SECTOR INVESTMENTS
(In millions of dollars)

	Calendar year					
	1986	1987	1988	1989	1990	1991[1]
Government[2]	664	708	809	870	837	891
Educational institutions[3]	339	396	404	447	610	620
Health and social services establishments[3]	251	231	294	276	251	419
Hydro-Québec[4]	1 537	1 688	2 107	2 465	3 178	4 076
Other government enterprises[5]	552	723	464	839	641	988
Municipal bodies[6]	1 492	1 470	1 712	2 152	2 305	2 075
Total	**4 835**	**5 216**	**5 790**	**7 049**	**7 822**	**9 069**

1 Preliminary results.

2 Government investments include its capital expenditures as well as grants and loans for investments made available to economic agents outside the public sector. Financial investments in other components of the public sector are therefore excluded.

Sources: Public Accounts of the gouvernement du Québec and Conseil du trésor.

3 Investments by school boards, colleges, universities, and health and social services establishments include only new capital expenditures financed by debt service.

Source: Conseil du trésor.

4 *Source*: Hydro-Québec.

5 Investments by government enterprises correspond to an increase in long-term assets. Investments of the Société québécoise d'assainissement des eaux are included under "municipal bodies".

Sources: Financial statements of Québec government enterprises.

6 Investments by municipalities include those related to water purification, public transportation, and cultural and community facilities and other municipal investments.

Sources: Ministère de l'Environnement, Conseil du trésor, ministère des Affaires municipales and ministère des Finances du Québec.

In 1991, public sector investments amounted to $9 069 million, an increase of 15.9 % compared with 1990. This increase is primarily attributable to Hydro-Québec.

In order to take into account the interrelation between the government's financial policy and the situation in the various sectors under government jurisdiction, a comparative analysis of borrowings and investments must consider the situation of the public sector as a whole. Total net public sector borrowings include, in addition to the net long-term borrowings mentioned earlier, less-than-one-year net borrowings made as long-term financing transactions, including Treasury bills and Treasury notes issued by the government and borrowings from the government's retirement plans account.

TOTAL NET BORROWINGS AND INVESTMENTS BY THE PUBLIC SECTOR
(in millions of dollars)

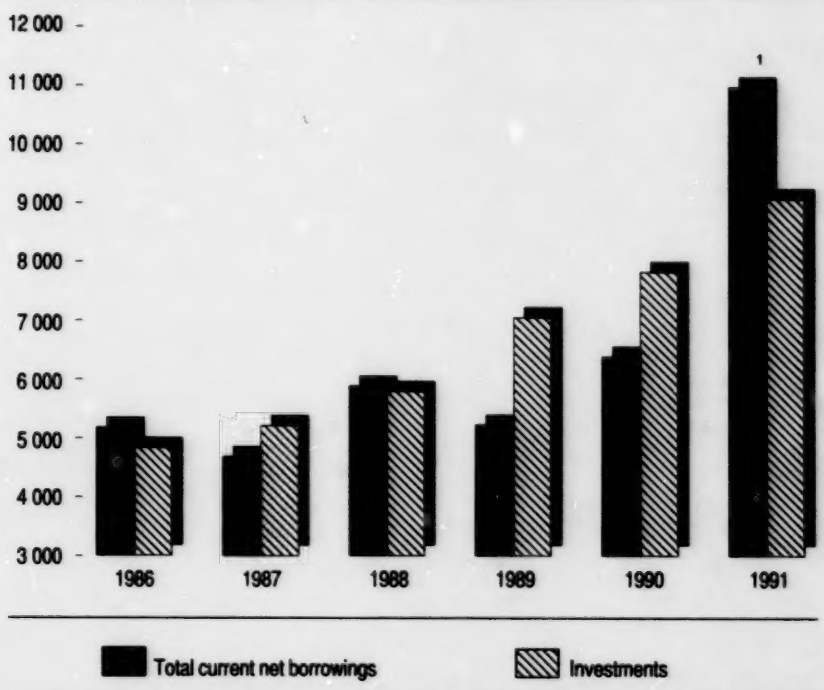
	Calendar year					
	1986	1987	1988	1989	1990	1991[1]
Net long-term borrowings	4 419	2 964	3 916	3 410	4 739	10 203
Less-than-one-year net borrowings made as long-term financing transactions	– 561	224	– 40	189	1	661
Surplus from the government retirement plans account	1 313	1 498	2 005	1 622	1 642	2 027
Total net borrowings	**5 171**	**4 686**	**5 881**	**5 221**	**6 382**	**12 891**
Hydro-Québec pre-financing	**—**	**—**	**—**	**—**	**—**	**– 1 922**
Total current net borrowings	**5 171**	**4 686**	**5 881**	**5 221**	**6 382**	**10 969**
Investments	**4 835**	**5 216**	**5 790**	**7 049**	**7 822**	**9 069**
Ratio	**1.07**	**0.90**	**1.02**	**0.74**	**0.82**	**1.21**

1 Preliminary results.

Source: Ministère des Finances du Québec.

Owing mainly to an increase in the government's net financial requirements and the timing of its financing transactions, the ratio of total current net borrowings, excluding the pre-financing obtained by Hydro-Québec, to investments stood at 1.21 in 1991.

TOTAL CURRENT NET BORROWINGS AND INVESTMENTS BY THE PUBLIC SECTOR
(In millions of dollars)



1 Excluding $1 922 million in pre-financing by Hydro-Québec of its borrowing needs for 1992.

Source : Ministère des Finances du Québec.

Historical data and preliminary results

GOUVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS
(in millions of dollars)

	1987-1988	1988-1989	1989-1990	1990-1991	Preliminary results 1991-1992 [3]
Budgetary transactions [1]					
Revenue	28 115.2	29 779.5	31 057.5	33 006.4	34 521.5
Expenditure	– 30 489.4 [4]	– 31 392.7 [4]	– 32 716.9 [4]	– 35 831.2	– 38 716.5
Deficit	**– 2 374.2**	**– 1 613.2**	**– 1 659.4**	**– 2 824.8**	**– 4 195.0**
Non-budgetary transactions					
Investments, loans and advances	– 680.3	– 669.5	– 515.7	– 458.1	– 421.0
Retirement plans account	2 203.0	1 634.0	1 163.8	1 873.7	1 928.0
Allowance for water purification	12.2	14.9	– 3.6	—	21.0
Other accounts	– 526.8	– 370.6	198.6	– 72.9	– 8.0
Surplus	**1 008.1**	**608.8**	**843.1**	**1 342.7**	**1 520.0**
Net financial requirements	**– 1 366.1**	**– 1 004.4**	**– 816.3**	**– 1 482.1**	**– 2 675.0**
Financing transactions					
Change in cash position	173.2	20.8	32.2	– 280.7	– 466.0
Change in direct debt [2]	1 192.9	983.6	784.1	1 762.8	3 141.0
Total financing	**1 366.1**	**1 004.4**	**816.3**	**1 482.1**	**2 675.0**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease. For comparison purposes, the data are shown on the basis of the budgetary and financial structure in force in 1992-1993.

1 The total revenue is made up of amounts credited to the consolidated revenue fund and to the Health Services Fund, whereas expenditure includes the amounts charged to these two funds.

2 Including new borrowings and the change in debt resulting from the proceeds of a currency swap contract, less repayment of borrowings.

3 The preliminary results for 1991-1992 are based on data recorded from April 1991 to February 1992, and on an estimate, as at April 7, 1992, of revenue and expenditure to be posted, up to the closing of the books, to 1991-1992 transactions, in keeping with the accounting practices in effect.

4 Including $848.8 million, $636.5 million and $183.8 million in additional expenditures entered respectively in 1987-1988, 1988-1989 and 1989-1990, which could have been charged to subsequent years.

GOUVERNEMENT DU QUÉBEC
BUDGETARY REVENUE
(in millions of dollars)

	1987-1988	1988-1989	1989-1990	1990-1991	Preliminary results 1991-1992
Income and property taxes					
Personal income tax	9 342.8	9 895.5	10 228.6	11 578.6	11 875.0
Employer contributions to Health Services Fund	2 049.2	2 159.5	2 468.9	2 641.4	2 777.0
Corporate taxes[1]	1 472.0	1 580.9	1 890.4	1 711.8	1 861.0
Succession duties	– 1.0	2.3	– 1.3	0.9	—
	12 863.0	**13 638.2**	**14 586.6**	**15 932.7**	**16 513.0**
Consumption taxes					
Retail sales	4 016.3	4 281.2	4 471.2	4 794.9	6 005.0
Fuel	1 183.9	1 224.3	1 256.8	1 150.1	1 122.0
Tobacco	531.8	554.5	515.3	585.8	507.0
Meals and hotels	402.7	433.0	470.3	383.3	8.0
Other[2]	149.1	156.4	171.3	175.0	170.0
	6 283.8	**6 649.4**	**6 884.9**	**7 089.1**	**7 812.0**
Duties and permits					
Motor vehicles	369.6	353.4	380.7	458.8	513.0
Alcoholic beverages	58.6	59.8	58.3	94.4	109.0
Natural resources[3]	101.9	118.0	120.0	88.2	93.0
Pari-mutuel	26.8	23.1	21.3	21.1	20.0
Other	108.6	119.8	126.5	125.6	138.0
	665.5	**674.1**	**706.8**	**788.1**	**873.0**
Miscellaneous					
Sales of goods and services	231.1	238.7	276.6	276.8	432.0
Interest	214.6	258.8	261.9	412.6	346.0
Fines, forfeitures and recoveries	244.2	265.8	274.6	334.3	333.0
	689.9	**763.3**	**813.1**	**1 023.7**	**1 111.0**
Revenue from government enterprises[4]					
Société des alcools du Québec	370.1	381.3	387.6	359.2	365.0
Loto-Québec	380.0	428.7	441.1	443.7	461.0
Hydro-Québec	508.0	619.0	565.0	404.0	760.0
Other	193.6	190.3	– 52.1	– 31.5	– 91.0
	1 451.7	**1 619.3**	**1 341.6**	**1 175.4**	**1 495.0**
Total own-source revenue	**21 953.9**	**23 344.3**	**24 333.0**	**26 009.0**	**27 804.0**
Government of Canada transfers					
Equalization	3 090.7	3 511.0	3 707.5	3 653.4	3 485.0
Other transfers related to fiscal arrangements	1 682.0	1 653.2	1 668.2	1 502.0	1 520.0
Contributions to welfare programs	1 032.0	1 037.3	1 143.2	1 410.9	1 522.0
Other programs	371.2	249.0	222.0	448.7	204.0
Total Government of Canada transfers	**6 175.9**	**6 450.5**	**6 740.9**	**7 015.0**	**6 731.0**
	28 129.8	**29 794.8**	**31 073.9**	**33 024.0**	**34 535.0**
Less : Revenue applicable to register fund	**14.6**	**15.3**	**16.4**	**17.6**	**13.5** [5]
Total budgetary revenue	**28 115.2**	**29 779.5**	**31 057.5**	**33 006.4**	**34 521.5**

1 Includes tax on corporate profits, tax on capital and tax on insurance company premiums.
2 Includes tax on telecommunications and on electronic advertising.
3 Includes forest, mining and hydraulic resources.
4 Includes the dividends declared and the change in surpluses or deficits accumulated by government enterprises, which are consolidated with a corresponding revaluation of the investment held by the government.
5 Revenue applicable for the period from April 1 to December 31, 1991, following the creation of the register fund on January 1, 1992.

GOUVERNEMENT DU QUÉBEC
BUDGETARY EXPENDITURE
(in millions of dollars)

Departments and agencies	1987-1988	1988-1989	1989-1990	1990-1991	Preliminary results 1991-1992
Affaires culturelles	194.6	225.2	239.2	262.6	289.2
Affaires internationales	85.4	87.7	85.5	101.3	109.2
Affaires municipales	572.4	550.3	636.4	627.1	679.3
Agriculture, Pêcheries et Alimentation	564.5	587.0	653.0	720.6	700.7
Approvisionnements et Services	50.8	54.4	56.4	53.8	52.6
Assemblée nationale	56.4	61.6	66.5	73.7	73.0
Communautés culturelles et Immigration	32.4	37.9	46.2	58.2	107.4
Communications	182.0	113.6	116.0	118.3	114.3
Conseil du trésor	17.0	18.4	20.3	21.7	21.8
Conseil exécutif	78.8	87.3	75.3	77.9	84.6
Éducation	4 892.6	5 231.2	5 030.3	5 410.2	5 679.4
Énergie et Ressources	137.5	168.4	172.8	157.9	151.3
Enseignement supérieur et Science	2 598.6	2 759.9	2 839.7	3 145.9	3 350.8
Environnement	293.8	359.8	415.2	477.0	536.0
Finances	3 786.6	3 956.0	4 150.3	4 551.5	4 791.4
Forêts	248.0	293.1	299.9	304.3	299.0
Industrie, Commerce et Technologie	245.6	316.8	344.8	340.5	358.2
Justice	364.5	380.8	404.7	444.7	470.4
Loisir, Chasse et Pêche	203.1	213.5	222.0	232.6	224.9
Main-d'oeuvre, Sécurité du revenu et Formation professionnelle	2 852.8	2 710.6	2 813.8	2 901.8	3 567.7
Organismes relevant de la ministre déléguée à la Condition féminine	94.2	101.6	122.1	141.8	150.7
Organismes relevant du ministre délégué à l'Administration et à la Fonction publique	1 347.0	677.8	452.7	899.8	1 014.3
Organismes relevant du ministre responsable de l'application de la Charte de la langue française	20.3	22.9	24.4	27.4	26.8
Personnes désignées par l'Assemblée nationale	25.3	27.8	75.6	32.0	32.4
Régie de l'assurance-maladie du Québec	1 889.5	2 066.7	2 223.3	2 434.9	2 684.2
Revenu	282.3	282.9	327.9	359.9	393.5
Santé et Services sociaux	6 892.6	7 377.0	7 999.4	8 774.7	9 551.8
Sécurité publique	580.1	650.4	686.2	869.9	834.3
Tourisme	73.5	78.5	84.0	90.9	105.1
Transports	1 682.2	1 813.8	1 962.3	1 961.2	2 059.7
Travail	82.3	101.4	78.9	71.1	73.4
Allowance for doubtful accounts	90.5	128.4	105.1	127.6	130.3
Subtotal	**30 517.2**	**31 542.7**	**32 830.2**	**35 872.8**	**38 717.7**
Allowance for loss on share investments (decrease)[1]	**– 13.2**	**– 134.7**	**– 96.9**	**– 24.0**	**12.3**
	30 504.0 [2]	**31 408.0 [2]**	**32 733.3 [2]**	**35 848.8**	**38 730.0**
Less : Expenditure applicable to the register fund	**14.6**	**15.3**	**16.4**	**17.6**	**13.5 [3]**
Total budgetary expenditure	**30 489.4**	**31 392.7**	**32 716.9**	**35 831.2**	**38 716.5**

1 Allowance created when the accumulated deficit of a government enterprise exceeds the cost of the investment in shares held by the government.

2 Including $848.8 million, $636.5 million and $183.8 million in additional expenditures entered respectively in 1987-1988, 1988-1989 and 1989-1990, which could have been charged to subsequent years.

3 Expenditure applicable for the period from April 1 to December 31, 1991, following the creation of the register fund on January 1, 1992.

GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS
(In millions of dollars)

	1987–1988	1988–1989	1989–1990	1990–1991	Preliminary results 1991–1992
Investments, loans and advances					
GOVERNMENT ENTERPRISES					
SHARES AND INVESTMENTS:					
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	– 2.5	– 17.5	—	– 89.8	– 28.1
Société québécoise d'exploration minière (SOQUEM)	—	25.0	—	—	—
Société québécoise d'initiatives agro-alimentaires (SOQUIA)	—	—	—	– 3.0	—
Other	– 1.3	6.0	– 7.5	– 3.8	– 2.5
	– 3.8	**13.5**	**– 7.5**	**– 96.6**	**– 30.6**
CHANGE IN THE EQUITY VALUE OF INVESTMENTS[1]	**– 690.6**	**– 679.4**	**– 372.9**	**– 391.4**	**– 594.2**
LOANS AND ADVANCES:					
Sidbec	– 6.8	74.6	—	—	—
Société d'habitation du Québec (SHQ)	0.5	0.5	0.6	0.6	125.3
Société de développement industriel du Québec (SDI)	– 56.1	– 71.7	– 154.8	– 17.6	95.5
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	1.5	– 9.8	– 72.0	50.7	– 0.3
Société immobilière du Québec (SIQ)	75.0	75.0	63.0	—	—
Other	15.3	– 85.3	– 2.8	1.3	—
	29.4	**– 16.7**	**– 166.0**	**35.0**	**220.5**
Total government enterprises	**– 665.0**	**– 682.6**	**– 546.4**	**– 453.0**	**– 404.3**
MUNICIPALITIES AND MUNICIPAL BODIES	2.2	3.3	2.3	2.5	9.9
INDIVIDUALS, CORPORATIONS AND OTHERS	– 17.5	9.8	28.4	– 7.6	– 26.6
Total investments, loans and advances	**– 680.3**	**– 669.5**	**– 515.7**	**– 458.1**	**– 421.0**

GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS (cont.)
(in millions of dollars)

	1987–1988	1988–1989	1989–1990	1990–1991	Preliminary results 1991–1992
Retirement plans account					
EMPLOYER AND EMPLOYEE CONTRIBUTIONS					
Contributions by the government as employer					
RREGOP					
☐ Current service	298.8	336.5	161.9	255.7	258.7
☐ Past service	244.7	111.1	112.1	219.5	261.0
☐ Interest	551.4	649.6	732.5	840.0	862.9
Other plans					
☐ Current service	161.9	168.4	186.4	201.9	193.0
☐ Past service	957.4	311.5	54.1	455.8	530.5
☐ Interest	372.6	487.5	453.4	570.5	581.2
	2 586.8	**2 064.6**	**1 700.4**	**2 543.4**	**2 687.3**
Independent agencies					
☐ Current service	4.9	4.9	4.5	4.4	4.9
☐ Past service	17.0	17.0	17.0	17.0	17.0
	21.9	**21.9**	**21.5**	**21.4**	**21.9**
Employee contributions	**175.9**	**187.5**	**169.5**	**177.5**	**167.2**
Total contributions	**2 784.6**	**2 274.0**	**1 891.4**	**2 742.3**	**2 876.4**
BENEFITS AND OTHER PAYMENTS					
Benefits and refunds	– 553.1	– 613.9	– 701.7	– 837.8	– 913.8
Other outlays	– 28.5	– 26.1	– 25.9	– 30.8	– 34.6
Total benefits and other payments	**– 581.6**	**– 640.0**	**– 727.6**	**– 868.6**	**– 948.4**
Total retirement plans account	**2 203.0**	**1 634.0**	**1 163.8**	**1 873.7**	**1 928.0**
Allowance for water purification[2]	**12.2**	**14.9**	**– 3.6**	**—**	**21.0**
Other accounts					
Cash and bills on hand and outstanding deposits	– 93.6	79.0	– 78.4	36.9	59.0
Outstanding cheques	35.1	45.0	– 6.6	– 180.0	– 18.0
Clearing accounts for collected taxes	33.5	10.9	25.3	64.5	– 25.0
Accounts receivable	– 14.5	– 320.8	257.5	– 255.4	– 285.0
Accrued interest on investments	– 0.4	– 2.1	– 1.1	– 2.1	—
Advances from trust funds	– 1.6	2.1	1.2	– 0.5	5.0
Accounts payable	– 498.4	– 193.4	49.4	279.0	144.0
Accrued interest on borrowings	76.8	54.0	20.4	53.8	148.0
Deferred expenses	– 76.7	0.2	– 11.0	– 9.3	– 26.0
Unrealized gain or loss on exchange[3]	13.0	– 45.5	– 58.1	– 42.0	– 8.0
Goods and services tax management[4]				– 17.8	– 2.0
Total other accounts	**– 526.8**	**– 370.6**	**198.6**	**– 72.9**	**– 8.0**
Total non-budgetary transactions	**1 008.1**	**608.8**	**843.1**	**1 342.7**	**1 520.0**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

1 Net amount including the change in the allowance for loss on share investments.

2 Inflow to this account consists of government contributions for the repayment of the long-term borrowings of the Société québécoise d'assainissement des eaux. Disbursements consist of the payments of the borrowings when they come to maturity.

3 Item presented in consideration of the amortization of the change in unrealized gain or loss attributed to servicing the direct debt of budgetary expenditure, but excluding the unamortized portion of the change, which has no effect on government financial transactions.

4 Item showing the transactions payable by the Government of Canada in respect to the implementation and management of the goods and services tax.

GOUVERNEMENT DU QUÉBEC
FINANCING TRANSACTIONS
(in millions of dollars)

	1987-1988	1988-1989	1989-1990	1990-1991	Preliminary results 1991-1992
Change in cash position	**173.2**	**20.8**	**32.2**	**– 280.7**	**– 466.0**
Change in direct debt					
New borrowings	3 199.6	3 232.6	2 722.3	3 017.1	5 787.6
Change in debt resulting from the proceeds of a currency swap contract[1]				54.3	—
Repayment of borrowings	– 2 006.7	– 2 249.0	– 1 938.2	– 1 308.6	– 2 646.6
Total change in direct debt	**1 192.9**	**983.6**	**784.1**	**1 762.8**	**3 141.0**
Total financing[2]	**1 366.1**	**1 004.4**	**816.3**	**1 482.1**	**2 675.0**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

1 Represents the differential, in Canadian equivalent as at the preceding March 31, between currencies cashed and those paid for during fiscal 1991-1992.

2 Excluding transactions carried out for the financing fund.

BORROWINGS FOR THE GOUVERNEMENT DU QUÉBEC IN 1991-1992

Amount in Canadian dollars [1]	Face value in foreign currency		Interest rate [2]	Date of issue	Date of maturity	Price to buyer	Yield to buyer [3]
(in millions)			%			$	%
442.0 [4]	—		8.50	June 1	2001-06-01	100.00	8.33
2.6 [5]	—		8.50	June 1	2000-06-01	100.00	8.64
250.0	—		10.50 *	April 9	1996-04-09	101.35	9.90
346.0	300.0	$US	9.00 *	May 8	2001-05-08	99.81	8.83
576.9	500.0	$US	8.80	April 23	2003-04-15	99.69	8.84
128.1	—		10.25	June 19	2001-10-15	98.42	10.50
12.8	—		10.25	June 19	2001-10-15	98.42	10.50
64.1 [6]	—		10.25	June 19	2001-10-15	98.42	10.50
573.2	500.0	$US	9.13 *	Aug. 22	2001-08-22	101.47	8.71
156.2 [6]	—		10.25	Aug. 28	2001-10-15	98.70	10.46
44.6	—		10.25	Aug. 28	2001-10-15	98.70	10.46
312.4	—		10.25	Aug. 28	2001-10-15	98.70	10.46
435.2 [7]	50 000.0	Y	6.25 *	Nov. 5	2001-11-05	99.95	6.17
75.0 [6]	—		8.50	Oct. 31	1994-10-31	99.77	8.59
83.5	—		10.07 *	Oct. 30	2001-10-30	100.00	9.83
418.9 [7]	2 000.0	FF	9.38 *	Dec. 20	1999-12-20	99.27	9.29
265.0 [6]	—		8.50	Dec. 20	1997-04-01	98.56	8.84
282.2 [6]	—		9.25	Dec. 20	2002-04-01	98.67	9.45
368.0	500.0	DM	8.00 *	Feb. 27	2002-02-27	101.25	7.67
348.4 [8]	301.0	$US	Misc.	Varied	Varied	Misc.	Misc.
472.5 [9]	397.7	$US	Misc.	Varied	Varied	Misc.	Misc.
12.8 [10]	—		Misc.	Varied	Varied	Misc.	Misc.
100.0 [6 11]	—		Misc.	Varied	Varied	Misc.	Misc.
17.2 [12]	—		Misc.	Varied	Varied	Misc.	Misc.
5 787.6 [13]							

* Interest payable annually.

1 Canadian equivalent of face value on the date of borrowing for borrowings in foreign currency.

2 Interest payable semi-annually, except those marked with an asterisk, which are payable annually.

3 Yield to buyer is determined on the basis of interest payable semi-annually.

4 Amount cashed from the June 1, 1991 Québec Savings Bonds issue. The interest rate on these bonds is 8.5 % until May 31, 1992. Minimum interest will be 6 % until May 31, 2001.

5 Amount cashed from the June 1, 1990 Québec Savings Bonds issue. The interest rate on these bonds was 12 % from June 1, 1990 to May 31, 1991 and 8.5 % from June 1, 1991 to May 31, 1992. Minimum interest will be 6 % until May 31, 2000.

6 The Caisse de dépôt et placement du Québec subscribed fully for these borrowings.

7 Borrowings covered by currency and interest rate swap contracts.

8 Medium-term notes.

9 Treasury notes.

10 Borrowings from the Government of Canada under the agreement on the funds collected under the Canada Pension Plan.

11 Increase in outstanding Treasury bills.

12 Interest capitalized on high-rate discount borrowings, including $10.8 million related to borrowings in US dollars.

13 Excluding borrowings of $1 016.3 million for the financing fund.

Note: The gouvernement du Québec has credit agreements with various banks and financial institutions for a total of $1 billion that can be drawn in Canadian dollars or their equivalent in other currencies.

BORROWINGS FOR THE FINANCING FUND IN 1991-1992

Amount in Canadian dollars [1]	Face value in foreign currency	Interest rate [2]	Date of issue	Date of maturity	Price to buyer	Yield to buyer [3]
(in millions)		%			$	%
60.9 [4]	—	10.25	June 19	2001-10-15	98.417	10.50
121.9	—	10.25	June 19	2001-10-15	98.417	10.50
12.2	—	10.25	June 19	2001-10-15	98.417	10.50
18.8 [4]	—	10.25	Aug. 28	2001-10-15	98.70	10.46
5.4	—	10.25	Aug. 28	2001-10-15	98.70	10.46
37.6	—	10.25	Aug. 28	2001-10-15	98.70	10.46
131.5 [5]	150 000.0 ITL	12.20 *	Oct. 9	1996-10-09	101.60	11.43
82.0 [6]	—	10.24 *	Oct. 24	2001-10-24	100.00	9.99
175.0 [4]	—	10.25	Oct. 31	2001-10-15	103.298	9.72
110.0 [4]	—	8.50	Dec. 20	1997-04-01	98.538	8.85
92.8 [4]	—	9.25	Dec. 20	2002-04-01	98.407	9.49
20.0 [4]	—	Misc.	Dec. 20	1993-04-26	100.00	Misc.
148.2 [5]	200.0 DM	8.20 *	Feb. 18	2002-02-18	100.00	8.04
1 016.3						

* Interest payable annually.

1 Canadian equivalent of face value on the date of borrowing for borrowings in foreign currency.

2 Interest payable semi-annually, except those marked with an asterisk, which are payable annually.

3 Yield to buyer is determined on the basis of interest payable semi-annually.

4 The Caisse de dépôt et placement du Québec subscribed fully for these borrowings.

5 Borrowings covered by currency swap contracts.

6 Medium-term notes.

BORROWINGS BY HYDRO-QUÉBEC IN 1991

Amount in Canadian dollars [1]	Face value in foreign currency	Interest rate [2]	Date of issue	Date of maturity	Price to buyer	Yield to buyer [3]
(in millions)		%			$	%
150.0 [4]	—	11.00	Jan. 7	2020-08-15	96.31	11.435
68.1 [5]	8 000.0 Y	6.00 *	Jan. 31	2001-01-31	100.00	6.59
1 039.5	900.0 $US	9.40	Feb. 12	2021-02-01	99.173	9.483
145.0	—	11.25	Feb. 20	2000-10-10	100.43	11.17
25.0 [4]	—	11.25	Feb. 20	2000-10-10	100.43	11.17
5.0	—	11.25	Feb. 20	2000-10-10	100.43	11.17
155.0	—	11.00	Feb. 20	2020-08-15	97.44	11.30
75.0 [4]	—	11.00	Feb. 20	2020-08-15	97.44	11.30
5.0	—	11.00	Feb. 20	2020-08-15	97.44	11.30
346.0 [5]	300.0 $US	9.00 *	March 7	2001-03-07	99.80	8.84
300.0	—	10.63 *	March 8	2001-03-08	101.04	10.19
63.6	—	n/a	March 12	2020-08-15	4.802	10.587 [6]
203.3 [5]	100.0 £	10.95	April 17	2001-04-17	100.00	10.97
394.7 [5]	600.0 DM	8.63 *	May 7	2001-05-07	101.50	8.23
116.8 [5]	150.0 FS	6.75 *	May 21	2001-05-21	101.25	6.48
100.0 [4]	—	10.88	July 25	2001-07-25	99.43	10.97
1 000.0	—	10.88	July 25	2001-07-25	99.43	10.97
200.0 [4]	—	11.00	Aug. 19	2020-08-19	99.135	11.10
100.0 [4]	—	10.50	Oct. 15	2021-10-15	99.485	10,557
1 000.0	—	10.50	Oct. 15	2021-10-15	99.485	10.557
388.6 [7]	341.0 $US	Misc.	Varied	Varied	Misc.	Misc.
5 880.6						

* Interest payable annually.

1 Canadian equivalent of face value on the date of borrowing for borrowings in foreign currency.

2 Interest payable semi-annually, except those marked with an asterisk, which are payable annually.

3 Yield to buyer is determined on the basis of interest payable semi-annually.

4 The Caisse de dépôt et placement du Québec subscribed in part or in full for these borrowings.

5 Borrowings covered by currency and interest rate swap contracts.

6 Effective rate to the buyer. This zero coupon bond was sold privately on the Canadian market. The amount collected is $63.6 million, while the amount repaid at maturity will be $1 325 million.

7 Medium-term notes.

Note: As at December 31, 1991, Hydro-Québec had credit agreements of US $1 150 million, of which US $750 million may also be available for its equivalent in Canadian dollars.

APPENDIX D

Review of the Economic Situation in 1991 and Outlook

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ECONOMIC INDICATORS, CANADA 20

Overview

Overall, the economic situation remained difficult in 1991, both in Québec and in the rest of the country. Several other major industrialized countries faced the same situation. In the United States, for example, economic recovery after the Gulf War was limited while Germany entered a recession in the spring. Japan suffered a slowdown and recorded an initial downturn in the last quarter of the year.

Nevertheless, on the whole the growth of the main economic sectors in Québec in 1991 fulfilled the forecast made last spring. Production decreased by 1.1 % and employment by 68 000, a little less than expected (– 77 000). The unemployment rate settled at 11.9 %, slightly below the level forecast.

However, the profile of growth in Canada and Québec surprised analysts, although the annual averages were as anticipated. The economy revived earlier and more vigorously than expected, as of the second quarter. But instead of accelerating, it levelled off and some of the gains made during the first months of the recovery were lost during the second half of the year.

Elements for imminent recovery of North American economy in place

Despite the uncertainty still raised by certain economic indicators, the necessary elements are in place for a strengthening of the recovery in North America in the near future. After hesitating last year, the US economy picked up speed somewhat as shown by the recent multiplication of positive indicators in that country. Interest rates in Canada, which had been dropping almost continuously for two years, have now reached levels that have not been seen since the 1970s. Lastly, the high value of the Canadian dollar, which until recently had put a damper on exporting firms, has fallen in relation to the US dollar.

Following the economic decline last year, Québec and Canada will experience new growth over the coming months. In Québec, production is expected to grow by 1.6 % this year, thanks to a recovery in household spending and a rise in exports in response to US demand. Employment should also increase as production accelerates, but job creation will be limited this year by the efforts firms must make to reinforce their productivity and improve their financial situation, which deteriorated as a result of the economic conditions prevailing over the last two years.

The economic situation in 1991

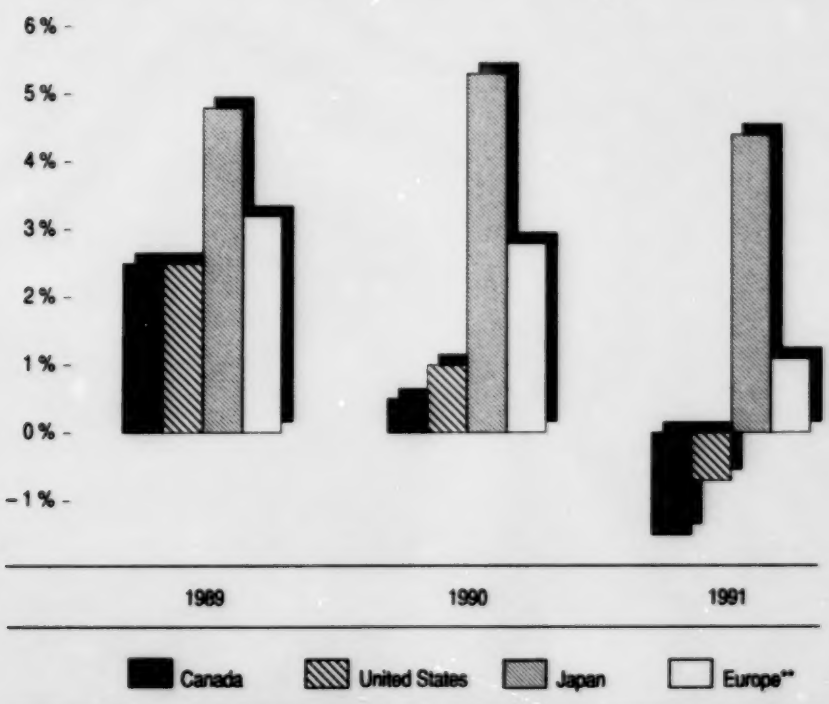
External environment

0.7 % drop in production in the United States

The economic situation remained fragile in the major industrialized countries in 1991. A recovery in the United States in the spring and early summer gave way to a period of stagnation characterized by a high level of uncertainty. The temporary rebound that followed the end of the war in the Persian Gulf had concealed the weakness of an economy weighed down by an excessively heavy debt. The US economy, recording one of the most sluggish recoveries of the post-war period, was thus unable to serve as a locomotive for the industrialized countries, as it had in 1983. In the United States, 1991 consequently ended with a 0.7 % fall in production.

Of all the major countries, the United Kingdom was most severely affected by the difficult economic conditions. The recession, which had not yet ended in the fourth quarter of the year, was longer and stronger than elsewhere. Production dropped by 2.4 % last year in that country.

GROSS NATIONAL PRODUCT* OF MAIN OECD COUNTRIES
(annual change)



* GNP in Germany and Japan. GDP elsewhere. In volume.

** Four major European countries: Germany, France, Italy, United Kingdom.

Sources: Statistics Canada.
Data Resources Inc.

The economic cycles in the major countries of the OECD continued to be out of step last year as they had in the recent past. While North America was beginning a recovery, France and Italy were undergoing an economic slowdown, and Germany and Japan were preparing to confront the recession.

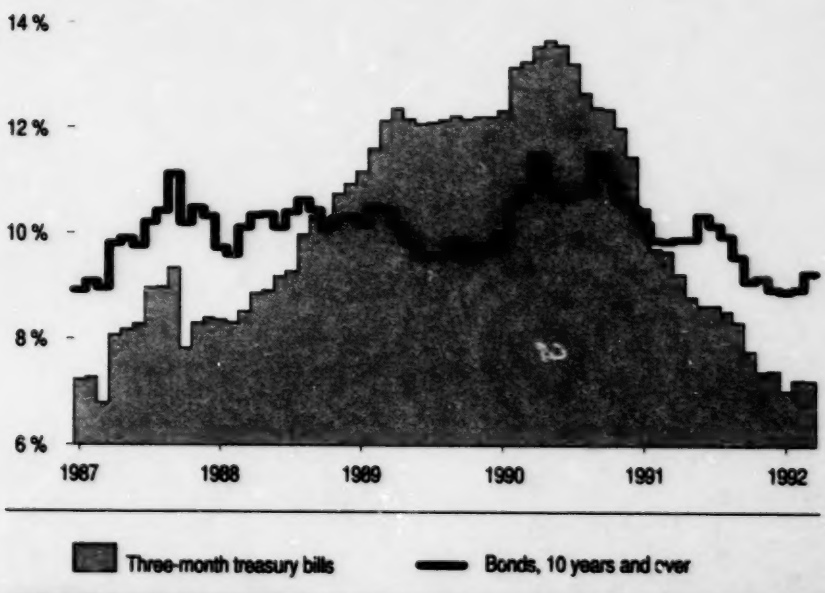
In Germany, the tax increases required to finance reunification and the restrictive monetary policy imposed to combat growing inflationary pressures proved stronger than the economy. By the second quarter, Germany was already entering a recession while the inflation rate was climbing to over 4 % by the end of the year, a level that had not been seen since the early 1980s. In Japan, the excesses of the late 1980s, aggravated by increased speculation on the financial and real estate markets, created pressures on Japanese productive resources that forced the authorities to adopt restrictive measures that in turn brought about the economic slowdown the country is now experiencing.

Monetary conditions

Interest rates down in the United States in 1991

In the United States the general economic anaemia led the Federal Reserve to loosen its control over monetary conditions a number of times. The US discount rate thus fell from 6.5 % at the end of 1990 to 3.5 % one year later and the money markets reacted accordingly. Yield on 3-month treasury bills actually dropped to 3.7 % recently, a level that had not been seen in 20 years.

YIELD — GOVERNMENT OF CANADA SECURITIES

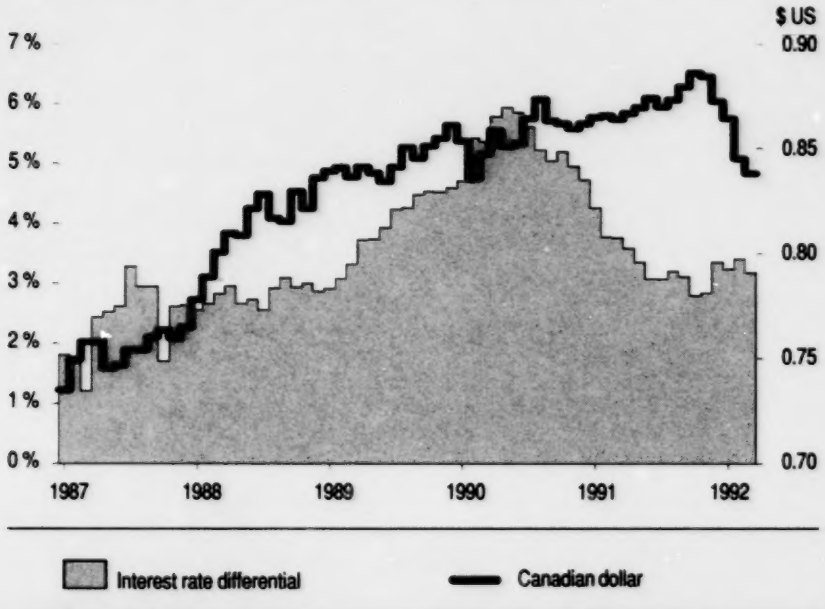


Source : Bank of Canada.

More marked decline in interest rates in Canada than in the United States

This easing off had repercussions in Canada where interest rates decreased considerably. The trend was hastened by economic conditions in the country : slow growth and a rapid fall in the inflation rate. The differential between the yield on Canadian 3-month treasury bills and US 3-month treasury bills plunged from six percentage points in the spring of 1990 to three percentage points at the end of 1991. During that period, the Canadian dollar nevertheless continued to appreciate in value, briefly exceeding US $0.89 last November. Since then, however, the Canadian dollar has dropped about $0.05 compared with the US dollar.

DIFFERENTIAL BETWEEN INTEREST RATES ON THREE-MONTH TREASURY BILLS (CANADA — UNITED STATES) AND EXCHANGE RATE OF THE CANADIAN DOLLAR



Sources : Bank of Canada.
Federal Reserve Statistical Release.

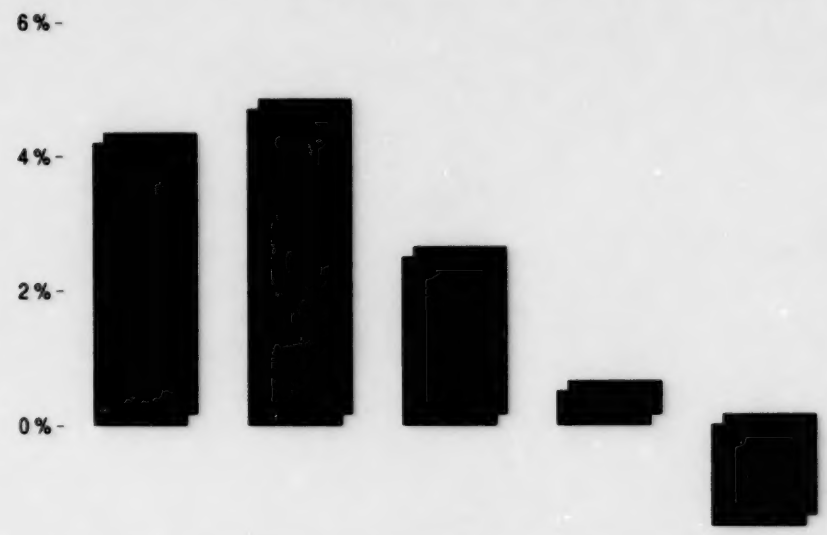
Economic conditions in Canada

In Canada, acceleration of activity in spring of 1991, followed by stagnation

The recession, which began in the spring of 1990 in Canada, continued in the first quarter of 1991 with a 1.4 % drop in production. With the spring, however, the acceleration of US industrial production and of household demand gave a boost to the Canadian economy.

The economic recovery thus began one quarter earlier than forecast and with unexpected force, output growing by 1.3 % in the second quarter. However, as in the United States, this renewed vigour was of short duration and during the six last months of the year production stagnated in Canada. Overall, the year ended with a 1.5 % drop in production, the first such drop since 1982.

GROSS DOMESTIC PRODUCT IN CONSTANT DOLLARS — CANADA (annual change)



Source: National Income and Expenditure Accounts, S.C., 13-001.

Few sectors escaped the recession. Despite the recovery in housing starts during the year, residential construction suffered the greatest drop of all categories of demand. Household spending also fell off, since consumers had to deal with high debts. In addition, given the situation prevailing on the foreign markets and the high value of the Canadian dollar, the foreign sector also put a brake on economic activity.

The repercussions of this situation were particularly severe for Canadian firms, which saw their profits plummet by 32.3 % last year. This third consecutive annual drop reduced the corporate profit rate to its lowest level in 60 years.

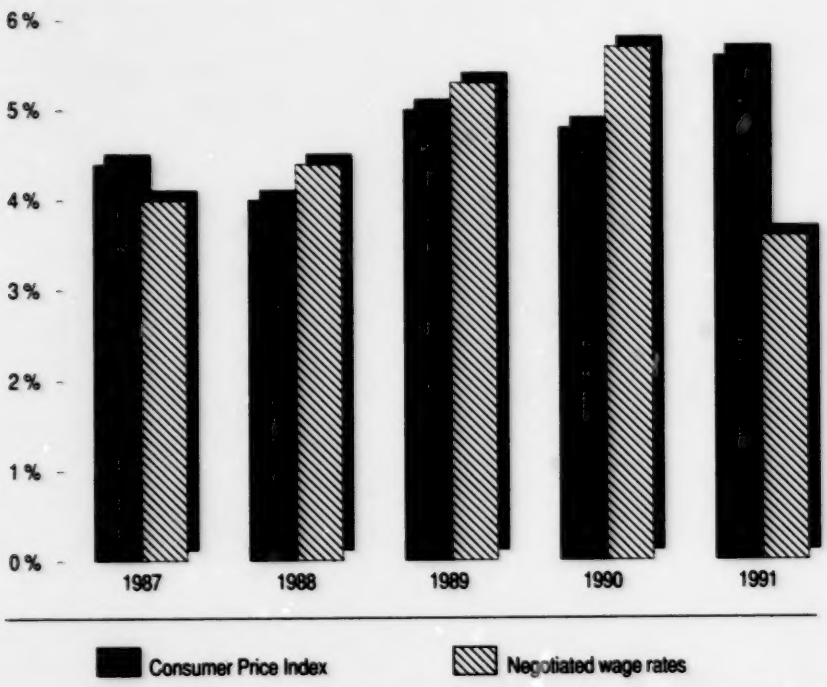
Province of Ontario hardest hit by the recession

All the regions of the country felt the effects, to varying degrees, of the difficult conditions last year, particularly Ontario, which was the province hardest hit. Employment in that province, for example, decreased by 167 000 in 1991, representing 72 % of the jobs lost in Canada.

Decline in inflation throughout 1991

In 1991, consumer prices rose by 5.6 % in Canada and the inflation rate reached a peak of 6.8 % in January with the coming into force of the GST. This increase was only temporary, however, and growth in consumer prices had dropped to 3.8 % by December 1991. Inflationary pressures were thus weakened during the year, a trend accentuated by the drop in the price of food and of petroleum products in the second half of the year. In March 1992, the inflation rate settled at only 1.6 % compared to the same month the preceding year.

CONSUMER PRICES AND WAGE RATES NEGOTIATED UNDER THE MAJOR COLLECTIVE AGREEMENTS — CANADA (annual change)



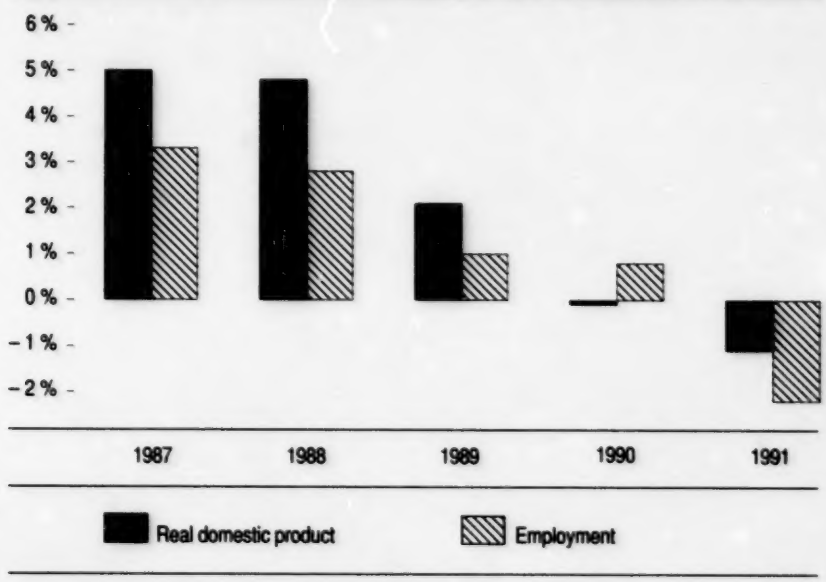
Sources : The Consumer Price Index, S.C., 62-001.
Major Wage Settlements, Labour Canada.

Québec

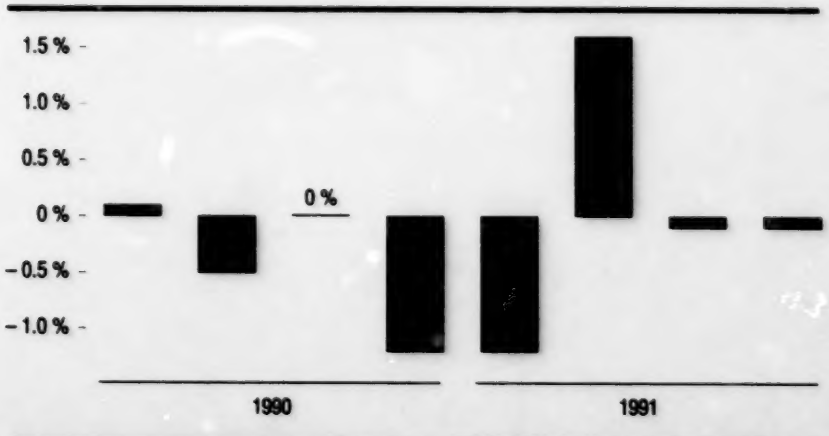
Restrictive environment also felt in Québec

Québec operated within the same restrictive environment and its economy reacted in much the same way as that of the country as a whole. After a rapid recovery in the spring, it levelled off so that, over the year, production fell by 1.1 %. Employment dropped by 68 000 and the unemployment rate rose by 1.8 percentage points in 1991, from 10.1 % to 11.9 %. As in 1990, job losses were concentrated in the goods sector, particularly in construction and manufacturing.

REAL DOMESTIC PRODUCT AND EMPLOYMENT — QUÉBEC
(annual change)



QUARTERLY GROWTH OF REAL DOMESTIC PRODUCT — QUÉBEC



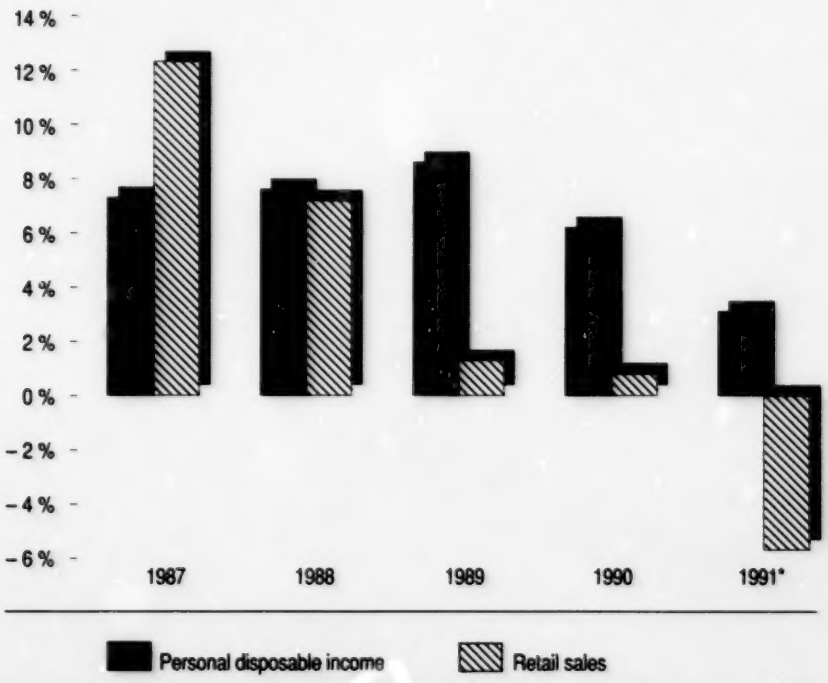
Sources : The Conference Board of Canada.
The Labour Force, S.C., 71-001.

Household income and spending

Decline in household purchasing power and spending

After increasing by 6.2 % in 1990, personal disposable income rose by only 3.1 % in 1991, far below the inflation rate. In view of this drop in purchasing power and the level of indebtedness which remained high, consumer confidence was generally low, despite the drop in interest rates. The volume of personal spending for goods and services therefore decreased in 1991. This drop affected goods in particular, as revealed by the 5.7 % reduction in the value of retail sales. However, much of this drop is due to a statistical differential resulting from the exclusion of the federal sales tax from the retail trade figures, beginning in January 1991, a tax which used to be included in this data. On a comparable basis, the drop was only 1.6 %. The caution shown by consumers was visible in all sectors, but more particularly in the purchase of durable and semi-durable goods. Sales in furniture stores, household appliances and furnishings plunged 17.4 % while sales in clothing and shoe stores fell by 12.5 %.

PERSONAL DISPOSABLE INCOME AND RETAIL SALES — QUÉBEC (annual change)



* For retail sales, see note 3 in table on page 17.

Sources : Provincial Economic Accounts, S.C., 13-213.
Retail Trade, S.C., 63-005.
Ministère des Finances du Québec.

Gross fixed capital investment

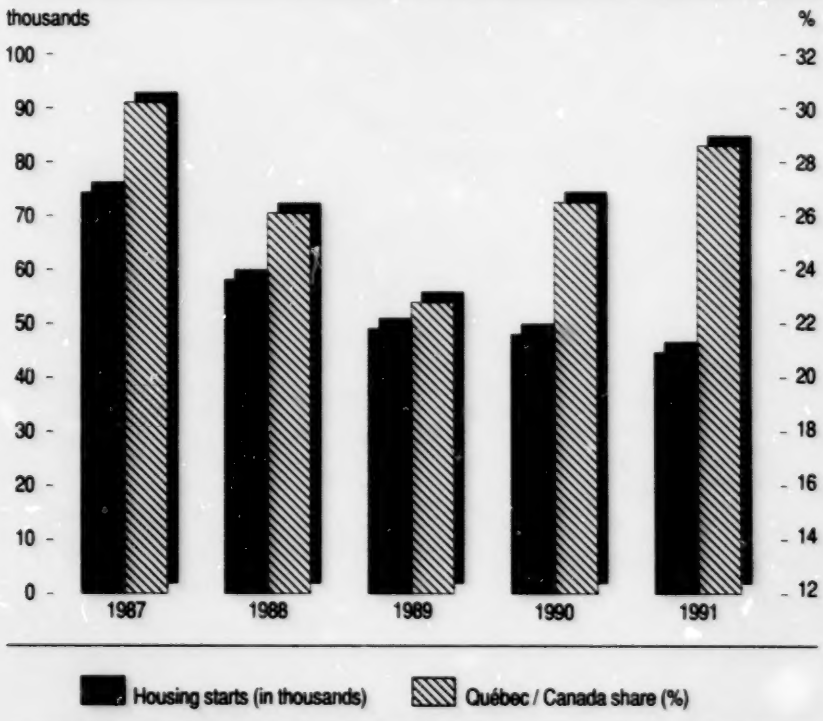
Having grown at an uninterrupted pace for eight years, investment declined by 8.8 % last year to total $27.8 billion. The rate of investment dropped to 17.8 % of the gross domestic product, a percentage below that of the past few years, but clearly higher than that observed in the first half of the 1980s.

— *Residential construction*

Deal Estate program helps nearly 21 000 families to acquire new housing

Residential construction declined in 1991, and there were 44 654 housing units started, a figure 7.1 % below that of 1990. The decrease in housing starts in Québec was less than the 14 % observed in Canada, since the Deal Estate program helped to support new construction. Housing starts in Québec exceeded last year's forecast by more than 3 000 units, and over 33 000 units, or three-quarters of the total, have been or are to be occupied by their owners. According to available Société d'habitation du Québec data, when the Deal Estate program ends on July 1, it will have assisted close to 21 000 families to acquire new housing.

HOUSING STARTS — QUÉBEC AND QUÉBEC/CANADA SHARE



Source : Canada Mortgage and Housing Corporation.

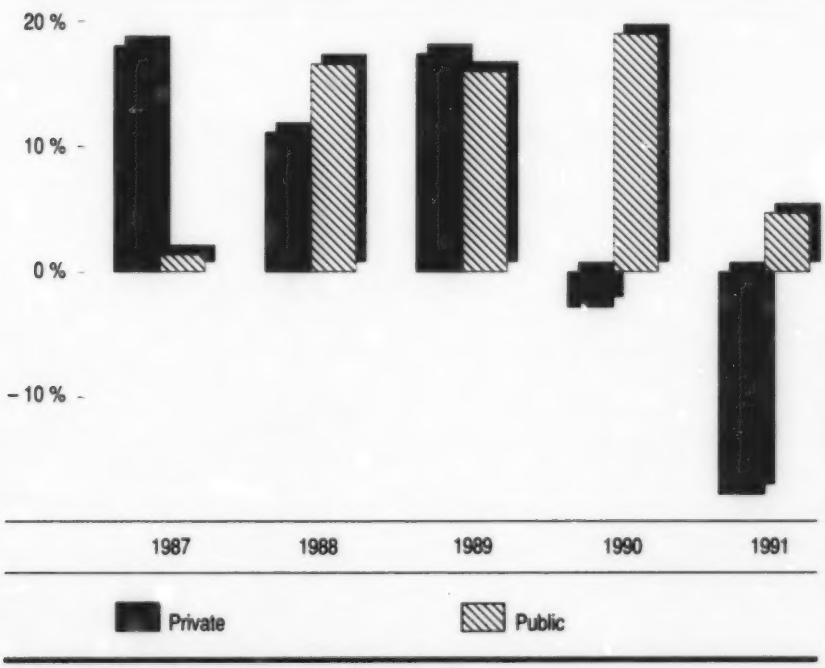
— *Non-residential investment*

Businesses postpone modernization and expansion projects

The year 1991 marked the end of seven consecutive years in which non-residential housing was on the rise, more than doubling over that period. It should be noted, however, that more than half of the 9.7 % decline last year is attributed to a drop of 5.5 % in the cost of investment. The economic context described above, notably the slowdown on foreign and domestic markets and the drop in corporation profits, compelled firms to cut back on or postpone their modernization or expansion projects.

Manufacturing industries were particularly affected by this situation ; they reduced their investments by 25.7 % in 1991 whereas they had tripled them between 1983 and 1990. Two other major sectors—commercial services and finance—also reduced their capital expenditures, by 7.3 % and 23.7 %, respectively. These sectors were affected particularly by low occupancy rates in office buildings in Québec as elsewhere in Canada.

NON-RESIDENTIAL PRIVATE AND PUBLIC INVESTMENT
(annual change)

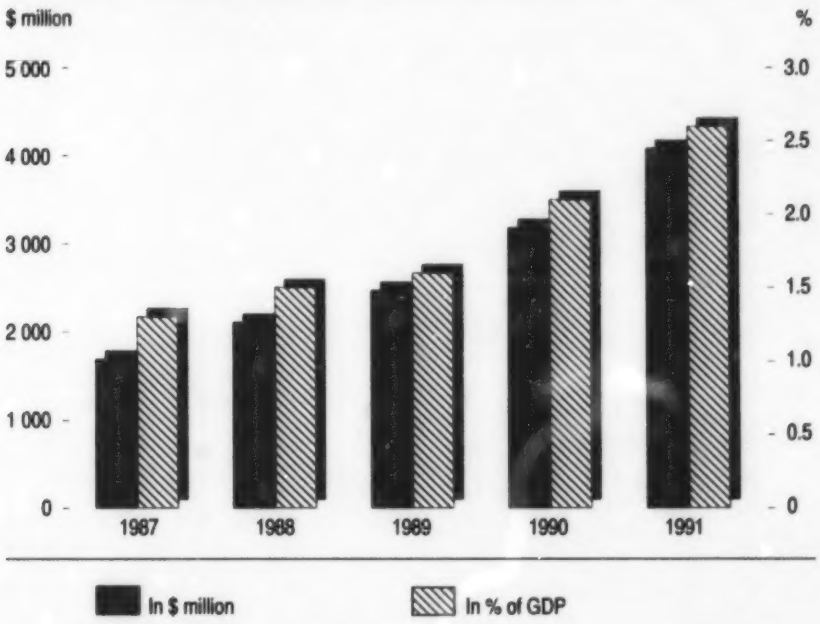


Source : Private and Public Investment in Canada, S.C. 61-205.

Government initiatives again bolster non-residential investment

Whereas private sector investment declined by 17.7 % last year, the public sector again helped bolster investment in Québec in 1991. Government initiatives to accelerate capital expenditures in the education network and health establishments resulted in an increase of 20.7 % in capital spending in these sectors. Furthermore, implementation of Hydro-Québec's investment program resulted in growth of 28.3 % in the capital expenditures of the government corporation, which exceeded $4 billion.

HYDRO-QUÉBEC'S INVESTMENTS



Sources : Hydro-Québec.
Ministère des Finances du Québec.

International exports

Stagnation of exports...

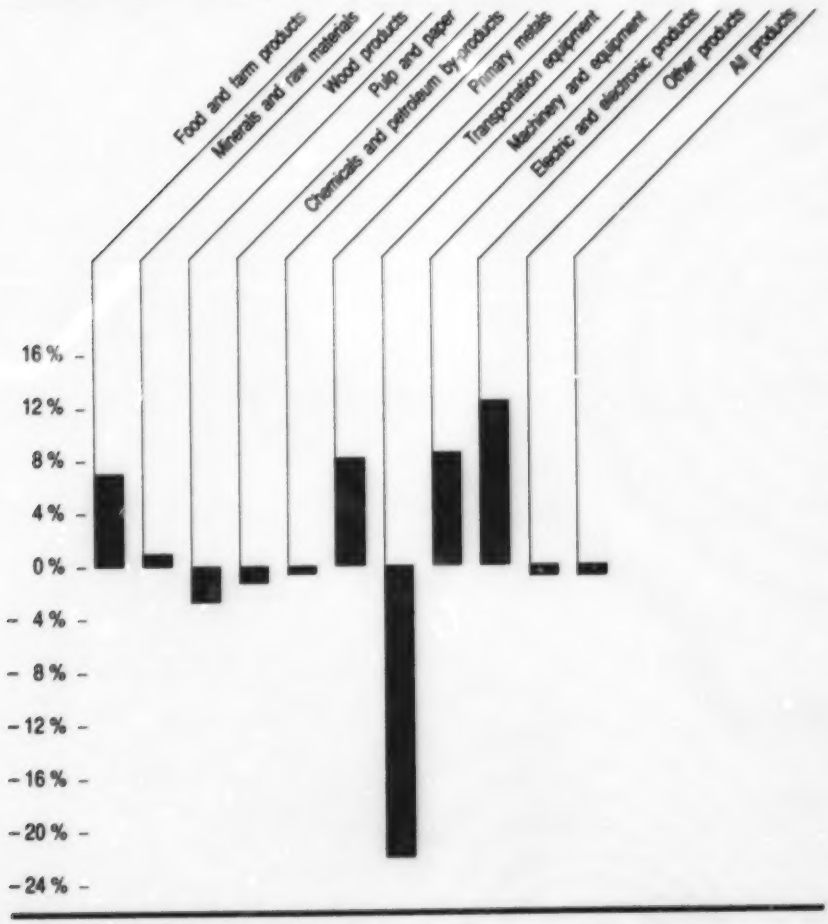
The weakness of the American economy, Québec's main foreign market, as well as the temporary closure of the General Motors facility in Boisbriand in July for retooling curbed Québec's exports. They dropped by 0.8 % in 1991, the first decline since 1982. Although the automobile sector was not the only one to experience a drop in exports last year, its exports declined more than in other sectors. In the wake of the retooling of the Boisbriand plant, this sector recorded a reduction of $1 billion in its exports compared with the previous year. Shipments abroad by the other sectors increased by 3.4 %.

In 1991, slack American demand meant a drop of 1.3 % in exports in such traditional sectors as wood, pulp and paper, chemicals and petroleum by-products.

... but vigorous growth in telecommunications and aeronautics sectors

However, other sectors continued to show vigour. Exports of telecommunications equipment, which now account for 13 % of Québec's exports, increased by 19 %. Furthermore, shipments of aircraft rose by 45.2 % while shipments of machines and equipment climbed 8.5 %, even though foreign businesses were compelled to reduce their capital expenditures in 1991. Lastly, the opening of new facilities enabled some industries to increase the volume of their exports. This is true of aluminum, the value of whose exports rose by 8 % despite a drop in price of some 20 %.

INTERNATIONAL EXPORTS LOADED IN QUÉBEC — 1991
(annual change)



Sources : Bureau de la statistique du Québec.
Ministère des Finances du Québec.

Economic outlook for 1992

Signs of acceleration of growth in U.S. economy multiplied recently

Growth of the North American economy should accelerate this year. After a year of slow recovery, signs of an acceleration of growth by the U.S. economy multiplied during the early months of 1992. In Canada, even more than in the United States, interest rates have dropped significantly over the past two years, and are now at their lowest level since the early 1970s. Furthermore, the value of the Canadian dollar recently dropped.

However, in the United States as well as in Canada and Québec, the expansion of the economy will remain slow compared with previous recovery phases. Throughout North America, households must cope with the high debt accumulated during one of the longest phases of expansion ever experienced. Simultaneously, firms must give priority to rebuilding a sound financial situation. In addition, governments no longer have any leeway in which to markedly accelerate economic recovery. Lastly, despite the decline in interest rates, real rates remain very high in Canada, given the sizable reduction in inflation over the past year.

In view of the above, it is anticipated that Québec's economic growth will be 1.6 % this year and will accelerate to between 4 % and 4.5 % in 1993.

External environment

Internationally, economic growth will remain modest, reflecting the sluggish recovery in the United States and the United Kingdom, and the continuing slowdown in Germany and Japan. In the United States in particular, although the situation is still uncertain, indications of an acceleration in growth in the coming months have recently become more numerous : retail sales, housing starts, the industrial production index, household confidence and the leading indicator have all risen in the past months. According to the consensus forecast for this country, growth should be around 2 % in the United States in 1992. For the whole of the main industrialized countries, the IMF anticipates that output will increase by 1.7 % this year, approximately one percentage point more than last year.

Canada to benefit from more favourable economic environment

Canada should benefit from the improvement in the international outlook and the decrease in interest rates. Canadian output will increase by a little under 2 % in 1992. The sectors most affected in the last two years by high interest rates and sluggish external markets should experience higher-than-average growth. This should be the case in housing, in purchases of automobiles and other durable goods, as well as in exports of manufactured products.

Furthermore, the slackening of inflationary pressures over the last two years will mean another reduction in price rises. This year, consumer prices will increase by 2 %, the lowest rate since 1964.

Québec

In Québec, growth of 1.6 % in 1992 and 4 % to 4.5 % in 1993

Like Canada, Québec will benefit from an environment favourable to the acceleration of economic activity in 1992. Output should rise by 1.6 % over the full year.

The financial situation of households will improve substantially this year on the heels of the marked reduction in interest rates and the leverage generated by renewal of mortgage loans at much lower interest rates. Hence, there will be an acceleration in consumer spending, although a modest one. Consumers will be unable to lower significantly their savings rate since it is now relatively low, and will also have to continue to reduce the extent of their indebtedness.

The conditions prevailing in the housing market will favour the continuation of the gradual return to a balance between supply and demand for housing units. The recovery of the resale market in the past few months will allow the stock of unsold housing units to decrease, while acceleration in economic activity will favour an increase in occupancy rates in rental housing. Overall, housing starts should decline in 1992 to 39 000 units.

According to the findings of the latest Statistics Canada survey on the outlook for public and private investment, the value of non-residential capital expenditures in Québec should rise by 2.6 % in 1992. Once again this year, the vigour of public investment will make up for private investment.

For the whole of the public sector, the increase in investment will total 12 % this year. Hydro-Québec's investments alone will grow by 13.7 % to total approximately $4.6 billion, or some $550 million more than in 1991.

SUMMARY OF SHORT-TERM ECONOMIC OUTLOOK — QUÉBEC

	1991 %	1992 %
OUTPUT		
☐ Gross domestic product	1.3	3.3
☐ Real domestic product	– 1.1	1.6
COMPONENTS OF DEMAND		
☐ Non-residential investment[1]	– 9.7	2.6
☐ Housing starts[2]	44.7	39.0
☐ Retail sales	– 5.7[3]	3.0
COMPONENTS OF INCOME		
☐ Wages and salaries	1.6	2.6
☐ Personal income	3.2	3.5
☐ Corporate profits	– 32.1	9.4
LABOUR MARKET		
☐ Labour force	– 0.2	0.1
☐ Employment	– 2.2	0.3
☐ Unemployment rate[4]	11.9	11.8

1 *Source*: Private and Public Investment in Canada, S. C., 61-205.

2 In thousands.

3 The GST in force since January 1991 is not included in the retail sales data published by Statistics Canada. However, as the former federal sales tax was previously included in retail sales, the growth rates calculated for 1991 are not significant. On a comparable basis, the retail sales growth would be – 1.6 % in 1991.

4 Level in percentage.

However, non-residential investment by business will decline in 1992. The main reasons are : the completion of large-scale projects in the aluminum industry, a reduction of 27.2 % in investments in the pulp and paper industry, a sector that saw its capital expenditures virtually quadruple in the 1980s, and high vacancy rates in office buildings. In the other sectors, the trend will be toward maintaining investment around the levels reached in 1991 except for the transportation equipment industry which will triple its investments.

With regard to the labour market, the employment situation will improve slowly during the year. However, the most significant gains will mainly be recorded in 1993. Growth in demand will be relatively modest this year, and businesses will have to continue to improve their financial situation, with the result that hiring will increase only gradually in the coming months. For 1992 as a whole, growth in employment will be limited to 0.3 % in Québec, and the unemployment rate will average 11.8 %.

Medium-term economic outlook for 1993-1995

1993-1995 : period of recovery in major industrialized countries

According to the IMF, the coming years will see a recovery in the industrialized countries. Beginning in 1993, the effects of the main imbalances at the root of the economic downturn — excessive debt and high interest rates — will have had time to disappear, and growth should accelerate. Furthermore, the trend toward the opening of international markets will accentuate, offering new growth perspectives and increasing international competition.

While it will be able to count on an economy which had renewed itself and diversified over the 1980s, Québec will also benefit from government policies to strengthen its competitiveness and its ability to adapt to the challenges and opportunities that will arise internationally in the coming years.

Moreover, in regard to both inflation and interest rates, the mid-1990s will differ from the previous decade. Canada should experience a phase of sustained growth, accompanied by an inflation rate of around 2 %, the lowest for more than a quarter century, which will make it possible for interest rates to remain at a level clearly below those of the 1980s.

In Québec, growth to be based on investment and foreign markets

Having overcome the perils of the recession, the Québec economy will begin the next phase of expansion by relying on foreign markets and on investment. Between 1993 and 1995, output will rise by an average of 4 % a year and the output gap generated by the recent downturn in activity will gradually disappear.

The economic recovery worldwide, coupled with increasingly open external markets, will multiply the business opportunities of Québec firms. These firms will also be able to count on enhanced competitiveness through better control of production costs and a rate of inflation that is among the lowest in the industrialized countries. The sectors most sensitive to cyclical change will particularly benefit from growing demand among our main trading partners. Furthermore, the economy will be able to rely on the vitality and growing presence of high technology industries, such as aeronautics, telecommunications equipment and electronic products, which are more specifically oriented towards exports.

Non-residential investment should also make a substantial contribution to economic expansion in the mid-1990s. A number of factors will favour a recovery in investment. First, the financial situation of businesses will improve while profits, having dropped by more than half since their peak in 1988, will rise by an average of 25.4 % a year in the period from 1993 to 1995. Moreover, the recovery of demand in Québec and elsewhere will gradually fill the excess production capacity that slowed investment in the past two years. Lastly, the federal and provincial sales tax reform, having reduced the cost of capital, will provide major support for the modernization efforts that businesses will have to make in an increasingly competitive environment.

Lastly, in regard to households, purchases postponed during the recession should help boost consumption of durable goods. The contribution of consumer spending to the recovery of the economy will be less pronounced, however, than it was during the recovery that followed the recession of 1981-1982. Households are now more indebted, and their lower rate of savings will not enable them to finance an increase in their purchases much above the increase in their incomes. Furthermore, in the housing sector, the number of starts should be around 50 000 units annually, since some of the imbalances in this market will have been corrected in 1991 and 1992, and the rate of household formation should accelerate with improving conditions on the labour market.

The projected increase in output will mean a marked improvement in the labour market in the coming years. It is estimated that, in the period from 1993 to 1995, some 225 000 jobs will be created, which will make it possible to reduce the unemployment rate to under 10 % toward the end of the period.

SUMMARY OF MEDIUM-TERM ECONOMIC OUTLOOK — QUÉBEC

	1981-1990 %	1992 %	1993-1995 %
OUTPUT			
☐ Gross domestic product	7.9	3.3	6.4
☐ Real domestic product	2.4	1.6	4.0
COMPONENTS OF DEMAND			
☐ Non-residential investment	7.5 [1]	2.6 [1]	9.5
☐ Housing starts[2]	47.3	39.0	50.1
☐ Retail sales	7.3	3.0	6.2
COMPONENTS OF INCOME			
☐ Wages and salaries	7.0	2.6	5.2
☐ Personal income	8.2	3.5	5.4
☐ Corporate profits	5.1	9.4	25.4
LABOUR MARKET			
☐ Labour force	1.6	0.1	1.9
☐ Employment	1.3	0.3	2.5
☐ Unemployment rate[3]	11.3	11.8	10.7

1 *Source*: Private and Public Investment in Canada, S. C., 61-205.

2 In thousands.

3 Level in percentage.

ECONOMIC INDICATORS
QUÉBEC

	Unit of measurement	1987	1988	1989	1990	1991[1]	87-88 %	88-87 %	88-89 %	90-89 %	91-90 %	91-87[2] %
Gross domestic product	$000 000	129 763	141 932	149 652	154 066	156 118	10,4	9,4	5,4	2,9	1,3	4,7
Real domestic product	$000 000 [3]	107 668	112 861	115 210	115 058	113 783	5.0	4.8	2.1	-0.1	-1.1	1.4
Per capita real domestic product	$ [3]	16 331	16 995	17 201	17 000	16 620	4.2	4.1	1.2	-1.2	-2.2	0.4
Personal income	$000 000	111 559	120 925	129 219	139 223	143 685	8.2	8.4	6.9	7.7	3.2	6.5
Per capita personal income	$	16 921	18 209	19 292	20 571	20 989	7.3	7.6	5.9	6.6	2.0	5.5
Total capital expenditures	$000 000	24 941	27 454	29 548	30 422	27 758	18.6	10.1	7.6	3.0	-8.8	2.7
- Manufacturing sector	$000 000	3 997	4 566	6 031	6 207	4 610	7.6	14.2	32.1	2.9	-25.7	3.6
Manufacturers' shipments	$000 000	66 531	73 687	76 692	72 940	67 149	9.0	10.8	4.1	-4.9	-7.9	0.2
Retail sales	$000 000	43 456	46 583	47 192	47 578	44 850	12.3	7.2	1.3	0.8	-5.7	0.8
Consumer Price Index	1986 = 100	104.4	108.3	112.9	117.7	126.4	4.4	3.7	4.2	4.3	7.4	4.9
Population (June 1)	'000	6 593	6 641	6 698	6 768	6 846	0.8	0.7	0.9	1.0	1.1	0.9
Labour force	'000	3 253	3 311	3 343	3 399	3 392	2.5	1.8	1.0	1.7	-0.2	1.1
Employment	'000	2 918	3 001	3 031	3 055	2 987	3.3	2.8	1.0	0.8	-2.2	0.6
Unemployment rate	%	10.3	9.4	9.3	10.1	11.9	—	—	—	—	—	—

1 Preliminary data.

2 1987-1991 annual compound rate.

3 1986 constant dollars.

Sources: Provincial Economic Accounts, S.C., 13-213 ; The Conference Board of Canada ; Private and Public Investment in Canada, S.C., 61-205 ; Monthly Survey of Manufacturing, S.C., 31-001 ; Retail Trade, S.C., 63-005 ; The Consumer Price Index, S.C., 62-001 ; Postcensal Annual Estimates of Population, S.C., 91-210 ; The Labour Force, S.C., 71-001.

ECONOMIC INDICATORS
CANADA

	Unit of measurement	1987	1988	1989	1990	1991[1]	87-88 %	88-87 %	88-89 %	90-89 %	91-90 %	91-87[2] %
Gross domestic product	$000 000	551 597	605 147	649 102	671 577	679 203	9.1	9.7	7.3	3.5	1.1	5.3
Real gross domestic product	$000 000 [3]	526 730	551 423	564 990	567 541	558 862	4.2	4.7	2.5	0.5	-1.5	1.5
Per capita real gross domestic product	$ [3]	20 562	21 283	21 532	21 328	20 699	3.1	3.5	1.2	-0.9	-3.0	0.2
Personal income	$000 000	461 191	506 589	548 989	590 168	609 126	7.9	9.8	8.4	7.5	3.2	7.2
Per capita personal income	$	18 003	19 553	20 922	22 178	22 560	6.8	8.6	7.0	6.0	1.7	5.8
Total capital expenditures	$000 000	109 162	122 935	136 060	136 210	126 635	12.4	12.6	10.7	0.1	-7.0	3.8
- Manufacturing sector	$000 000	15 332	17 662	21 174	19 862	16 956	7.6	15.2	19.9	-6.2	-14.6	2.5
Manufacturers' shipments	$000 000	272 037	298 254	307 105	294 061	276 347	7.4	9.6	3.0	-4.2	-6.0	0.4
Retail sales	$000 000	168 893	181 652	189 301	192 558	181 208	9.8	7.6	4.2	1.7	-5.9	1.8
Consumer Price Index	1986 = 100	104.4	108.6	114.0	119.5	126.2	4.4	4.0	5.0	4.8	5.6	4.9
Population (June 1)	'000	25 617	25 909	26 240	26 610	27 000	1.0	1.1	1.3	1.4	1.5	1.3
Labour force	'000	13 011	13 275	13 503	13 681	13 757	2.1	2.0	1.7	1.3	0.6	1.4
Employment	'000	11 861	12 245	12 486	12 572	12 340	2.9	3.2	2.0	0.7	-1.8	1.0
Unemployment	%	8.8	7.8	7.5	8.1	10.3	—	—	—	—	—	—

1 Preliminary data.

2 1986-1991 annual compound rate.

3 1986 constant dollars.

Sources: National Income and Expenditure Accounts, S.C.,13-001 ; Private and Public Investment in Canada, S.C., 61-205 ; Monthly Survey of Manufacturing, S.C., 31-001 ; Retail Trade, S.C., 63-005 ; The Consumer Price Index, S.C., 62-001 ; Postcensal Annual Estimates of Population, S.C., 91-210 ; The Labour Force, S.C., 71-001.